S. HRG. 100-104

THE INDUSTRIAL INNOVATION AND TECHNOLOGY ACT

HEARING

BEFORE THE

SUBCOMMITTEE ON
PATENTS, COPYRIGHTS AND TRADEMARKS

OF THE

COMMITTEE ON THE JUDICIARY
UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

FIRST SESSION

ON

S. 791

A BILL TO AMEND THE COPYRIGHT LAW, TITLE 17 OF THE UNITED STATES CODE, TO PROVIDE FOR PROTECTION OF INDUSTRIAL DESIGNS OF USEFUL ARTICLES

MARCH 26, 1987

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THE INDUSTRIAL INNOVATION AND TECHNOLOGY ACT

THURSDAY, MARCH 26, 1987

U.S. SENATE,
COMMITTEE ON THE JUDICIARY,
SUBCOMMITTEE ON PATENTS, COPYRIGHTS AND TRADEMARKS,
Washington, DC.

The Subcommittee on Patents, Copyrights and Trademarks met, pursuant to notice, at 2:07 p.m., in room 226, Dirksen Senate Office Building, Hon. Dennis DeConcini [chairman of the subcommittee] presiding.

Also present: Senators Hatch and Grassley.

Staff present: Ed Baxter, majority chief counsel and staff director; Tara McMahon, majority counsel; Cecilia A. Swensen, legislative aide; and Randy Rader, minority chief counsel.

OPENING STATEMENT OF HON. DENNIS DeCONCINI, A U.S. SENATOR FROM THE STATE OF ARIZONA

Senator DECONCINI. The subcommittee will come to order.

The subcommittee meets this afternoon to hear testimony on a bill introduced last week by Senator Hatch and myself on industrial design protection, Senate bill 791, the Industrial Innovation and Technology Act of 1987.

It is not novel legislation; in fact, we are pleased to have as our first witness today the Honorable Giles Rich, who was one of the original drafters of similar legislation proposed in the 1950's. Judge, we're very pleased you're here.

The climate has changed, however, over the years; and in 1987 the legislation has become a necessity, not only domestically, but internationally.

We see in the headlines every day evidence that the industrial competitiveness of the United States has been slipping, that America's innovativeness is on the decline. For the past 25 years we in America have seen our share of world trade take a nosedive. For 70 years this Nation was a creditor Nation, but those times seem to have gone. Over the past two decades we have seen our balance of trade go from a surplus of $5 billion in 1960 to an incredible deficit of $170 billion last year. This is the largest trade deficit of any country at any time in history.

What is our track record in the area of intellectual property? In 1985, 6 of the 10 corporations which received the largest number of U.S. patents were foreign controlled. Ten years ago, less than a third of the top ten corporations were foreign controlled. With

design patents, the statistics are even more revealing. The U.S. Patent Office issues about 3,000 design patents a year. Japan, by contrast, issues over 30,000 design registrations each year. Over 60,000 are issued in West Germany. Other industrial countries like ours, such as the United Kingdom and France, issue similar high numbers of design registrations.

I have no doubt that Americans are well equipped to do innovative work which equals or surpasses that of any trading partner. The best way to turn around U.S. competition is to make sure that we have a climate that will make it more profitable to compete. The best way to turn around American inventiveness is to make sure that we establish a climate that will make it more profitable to invest.

I know that American business is not looking for any special advantages, just a fair shot, a level field to play on. I believe that this legislation would extend to U.S. manufacturers and designers the same type of intellectual property protection that is offered by our major trading partners to their businesses. It would fill the void that exists within our current system. Commercial pirates of the marketplace can now take for their own profits, with minimal cost to themselves, the most successful and creative work of designers. This translates into a loss of American jobs and a disincentive to companies to invest in new product research and development. A limited 10-year period of protection under this bill would enable the owners of designs to prevent unauthorized imitation of their products, the so-called knock-offs which create unfair competition in the market.

The bill provides incentives to American manufacturers and designers to develop innovative and better designs themselves. For a limited time, owners will be able to protect their designs from others who would use them without having borne the cost of research and development. Design protection encourages fair competition and extend intellectual property protection to an area of creative innovation in which America is preeminent.

I look forward to hearing our witnesses today comment on the industrial design protections and on the specific legislation that is before us. I do welcome their suggestions on ways to make this legislation even better.

[S. 791, as printed in the Congressional Record of March 19, 1987, follows:]

United States of America

Congressional Record

PROCEEDINGS AND DEBATES OF THE 100th CONGRESS, FIRST SESSION

Vol. 133 WASHINGTON, THURSDAY, MARCH 19, 1987 No. 44

Senate

By Mr. DECONCINI (for himself and Mr. HATCH):

S. 791. A bill to amend the copyright law, title 17 of the United States Code, to provide for protection of industrial designs of useful articles; to the Committee on the Judiciary.

INDUSTRIAL INNOVATION AND TECHNOLOGY ACT

● Mr. DECONCINI. Mr. President, today Senator HATCH and I are introducing legislation that offers important new safeguards for industrial innovations. This legislation is long overdue and extends to U.S. manufacturers the same type of intellectual property protection that is offered by our major trading partners.

There is a great deal of talk in the Halls of Congress these days about making U.S. industry more competitive in this interdependent economic world. This is a laudable goal and there are many ways to achieve it. Business must undertake its own efforts to bring its costs in line with foreign competition. But Government has a role too. And in the particular area where I offer legislation today, only Government can help.

I say that because only the Federal Government can revise our intellectual property laws to provide a measure of protection for technological innovations. Our patent laws have to a large extent not kept pace with the rapid increase in technological advancement the last several decades. Nor has the law kept pace with the extensive copying that is taking place throughout the world. It has been estimated that U.S. manufacturers lose as much as $20 billion a year because of pirated designs. This translates into a loss of American jobs and a disincentive to companies to invest in new product development.

Who is affected by this industrial piracy? Unfortunately, the answer to that question is that a broad range of American businesses and their employees—usually those within their industries which are contributing most to keeping this country productive and competitive—are losing out to copyists. The disadvantaged industries include manufacturers of: trucks, sporting goods, construction equipment, luggage, furniture, automobiles, hardware and power tools.

U.S. manufacturers have little legal protection from those who copy their ideas and products because our present system rarely proves adequate. For an industrial design to be protected under our current copyright law, the artistic features of the article must be capable of an independent existence apart from the overall shape of the article to which the artistic features are applied. And to be eligible for a patent under our current patent law, a designer or manufacturer must be able to prove that the design is unobvious from the viewpoint of the ordinary designer. While an improved design for an existing product may differ from the original, it may not be different enough to meet these high standards. As a result, at least two-thirds of the design patents which are litigated prove unenforceable in court.

What is the track record? The U.S. Patent and Trademark Office issues about 3000 design patents a year. As I mentioned, as many as two-thirds of these are ultimately overturned. In Japan, by contrast, over 30,000 design registrations are issued each year. Over 60,000 are issued in West Germany. Other industrial countries like the United Kingdom and France issue similar high numbers of design registrations.

I believe it is time for the United States to acknowledge that we must update and modernize our intellectual property laws. If Congress is inattentive to this problem, not only will we continue to penalize our designers and to stifle innovation, we will continue to lose jobs to the commercial copyists of the marketplace who appropriate for their own profit, without any cost to themselves, the works of American innovators.

My legislation would amend the copyright law and provide a 10-year form of protection for industrial designs that are original and distinctive. The international standard is generally 15 years so we are not overextending our coverage by any means. Furthermore, the protection would not extend to designs which are commonplace, which are dictated by the utilitarian function of the article that embodies the design, or which differ from prevailing designs only in insignificant detail. Designers and manufacturers would file for design protection with the Registrar of Copyrights. This protection would enable proprietors of the design to prevent unauthorized imitation of their products. Disputes would be handled in the courts. But with the new standards as set out in this bill, there should be a sharp drop in the number of suits and of registrations that are not upheld.

Mr. President, my Subcommittee on Patents, Copyrights and Trademarks held preliminary hearings a month ago on this and other intellectual property issues. We heard from a number of witnesses who support a new industrial design registration for the reasons I have outlined. Similar legislation has been introduced in the House by a bipartisan group of Congressmen. However, I understand that there are some concerns about the application of this legislation, particularly in the area of automobile crash parts. I plan to hold a hearing on this specific legislation March 26 at which time we will have the opportunity to address these concerns. As we begin this process, I am eager to work with interested parties and hear their suggestions on how we might further define the boundaries of this new form of protection.

Let us pass this bill during this session of Congress and bring our intellectual property laws up-to-date. It may be one of the most sensible things Congress can do this year to make a more level playing field.

Mr. President, I ask unanimous consent that the text of this bill be printed, in the RECORD.

There being no objection, the bill was ordered to be printed in the RECORD, as follows:

S. 791

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Industrial Innovation and Technology Act of 1987".

INDUSTRIAL DESIGNS

SEC. 2. (a) Title 17, United States Code, is amended by adding at the end thereof the following new chapter:

"CHAPTER 10—PROTECTION OF INDUSTRIAL DESIGNS OF USEFUL ARTICLES

"Sec.
"1001. Designs protected.
"1002. Designs not subject to protection.
"1003. Revision, adaptations, and rearrangements.
"1004. Commencement of protection.
"1005. Term of protection.
"1006. The design notice.
"1007. Effect of omission of notice.
"1008. Infringement.
"1009. Application for registration.
"1010. Benefit of earlier filing date in foreign country.
"1011. Oaths and acknowledgments.
"1012. Examination of application and issue or refusal of registration.
"1013. Certification of registration.
"1014. Publication of announcements and indexes.
"1015. Fees.
"1016. Regulations.
"1017. Copies of records.
"1018. Correction of errors in certificates.
"1019. Ownership and transfer.
"1020. Remedy for infringement.
"1021. Injunction.
"1022. Recovery for infringement.
"1023. Power of court over registration.
"1024. Liability for action on registration fraudulently obtained.
"1025. Penalty for false marking.
"1026. Penalty for false representation.
"1027. Relation to copyright law.
"1028. Relation to patent law.
"1029. Common law and other rights unaffected.
"1030. Administrator.

"DESIGNS PROTECTED

"SEC. 1001. (a) The author or other proprietor of an original design of a useful article, which design is intended to make the article attractive or distinct in appearance to the purchasing or using public, may secure the protection provided by this chapter upon complying with and subject to the provisions hereof.

"(b) For the purposes of this chapter—

"(1) a 'useful article' is an article which in normal use has an intrinsic utilitarian function that is not merely to portray the appearance of the article or to convey information. An article which normally is a part of a useful article shall be deemed to be a useful article.

"(2) the 'design of a useful article', hereinafter referred to as a 'design', consists of those aspects or elements of the article, including its two-dimensional or three-dimensional features of shape and surface, which make up the appearance of the article. The design must be fixed in a useful article to be protectable under this chapter;

"(3) a design is 'original' if it is the independent creation of an author who did not copy it from another source;

"(4) typeface consists of a set of letters, numbers, or other symbolic characters, whose forms are related by repeating design elements consistently applied in a notational system; and

"(5) 'typeface' is a design subject to protection under this chapter when the repeating design elements in the combinations employed in a notational system are (A) original, (B) attractive or distinct, and (C) incorporated in a useful article whose normal use is in composing text or other cognizable combination of characters.

"DESIGNS NOT SUBJECT TO PROTECTION

"SEC. 1002. (a) Protection under this chapter shall not be available for a design that is—

"(1) not original;

"(2) staple or commonplace, such as a standard geometric figure, familiar symbol, emblem, or motif, or other shape, pattern, or configuration which has become common, prevalent, or ordinary;

"(3) different from a design excluded by paragraph (2) only in insignificant details or in elements which are variants commonly used in the relevant trades;

"(4) dictated solely by a utilitarian function of the article that embodies it;

"(5) composed of three-dimensional features of shape and surface with respect to men's, women's, and children's apparel, including undergarments and outerwear; or

"(6) a semiconductor chip product which is protected under chapter 9 of this title.

"(b) In no case does protection for a design under this chapter extend to any idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in such design.

"REVISIONS, ADAPTATIONS, AND REARRANGEMENTS

"SEC. 1003. Protection for a design under this chapter shall be available notwithstanding the employment in the design of subject matter excluded from protection under section 1002(a) (2) through (4), if the design is a substantial revision, adaptation, or rearrangement of such subject matter. Such protection shall be independent of any subsisting protection in subject matter employed in the design, and shall not be construed as securing any right to subject matter excluded from protection or as extending any subsisting protection.

"COMMENCEMENT OF PROTECTION

"SEC. 1004. The protection provided for a design under this chapter shall commence upon the date of publication of the registration pursuant to section 1012(a) or the date the design is first made public as defined by section 1009(b), whichever occurs first.

"TERM OF PROTECTION

"SEC. 1005. (a) Subject to subsection (b) and the provisions of this chapter, the protection herein provided for a design shall continue for a term of ten years from the date of the commencement of protection as provided in section 1004.

"(b) All terms of protection provided in this section shall run to the end of the calendar year in which they would otherwise expire.

"(c) Upon expiration or termination of protection in a particular design, as provided in this chapter, all rights under this chapter in such design shall terminate, regardless of the number of different articles in which the design may have been utilized during the term of its protection.

"THE DESIGN NOTICE

"SEC. 1006. (a) Whenever any design for which protection is sought under this chapter is made public as provided in section 1009(a), the proprietor shall, subject to the provisions of section 1007, mark it or have it marked legibly with a design notice consisting of the following three elements:

"(1) the words 'Protected Design', the abbreviation 'Prot'd Des.', or the letter 'D' within a circle thus D or the symbol "D";

"(2) the year of the date on which protection for the design commenced; and

"(3) the name of the proprietor, an abbreviation by which the name can be recognized, or a generally accepted alternative designation of the proprietor; any distinctive identification of the proprietor may be used if it has been approved and recorded by the Administrator before the design marked with such identification is registered.

After registration the registration number may be used instead of the elements specified in paragraphs (2) and (3).

"(b) The notice shall be so located and applied as to give reasonable notice of design protection while the useful article embodying the design is passing through its normal channels of commerce. This requirement may be fulfilled, in the case of sheetlike or strip materials bearing repetitive or continuous designs, by application of the notice to each repetition, or to the margin, selvage, or reverse side of the material at reasonably frequent intervals, or to tags or labels affixed to the material at such intervals.

"(c) When the proprietor of a design has complied with the provisions of this section, protection under this chapter shall not be affected by the removal, destruction, or obliteration by others of the design notice on an article.

"EFFECT OF OMISSION OF NOTICE

"SEC. 1007. The omission of the notice prescribed in section 1006 shall not cause loss of the protection or prevent recovery for infringement against any person who, after written notice of the design protection, begins an undertaking leading to infringement, except that such omission shall prevent any recovery under section 1022 against a person who began an undertaking leading to infringement before receiving written notice, and without knowledge of the design protection, and no injunction shall be had unless the proprietor of the design shall reimburse such person for any reasonable expenditure or contractual obligation in connection with such undertaking incurred before written notice of design protection, as the court in its discretion shall direct. The burden of providing written notice shall be on the proprietor.

"INFRINGEMENT

"SEC. 1008. (a) It shall be infringement of a design protection under this chapter for any person, without the consent of the proprietor of the design, within the United States or its territories or possessions and during the term of such protection, to—

"(1) make, have made, or import, for sale or for use in trade, any infringing article as defined in subsection (d) hereof; or

"(2) sell or distribute for sale or for use in trade any such infringement article, except that a seller or distributor of any such article who did not make or import such article shall be deemed to be an infringer only if—

"(i) he induced or acted in collusion with a manufacturer to make, or an importer, to import such article (merely purchasing or giving an order to purchase in the ordinary course of business shall not of itself constitute such inducement or collusion); or

"(ii) he refuses or fails upon the request of the proprietor of the design to make a prompt and full disclosure of his source of such article, and he orders or reorders such article after having received notice by registered or certified mail of the protection subsisting in the design.

"(b) It shall not be infringement to make, have made, import, sell, or distribute, any article embodying a design created without knowledge of, and copying from, a protected design.

"(c) A person who incorporates into his own product of manufacture an infringing article acquired from others in the ordinary course of business, or who, without knowledge of the protected design, makes or processes an infringing article for the account of another person in the ordinary course of business, shall not be deemed an infringer except under the conditions of clauses (i) and (ii) of paragraph (a)(2) of this section. Accepting an order or reorder from the source of the infringing article shall be deemed ordering or reordering within the meaning of clause (ii) of paragraph (a)(2) of this section.

"(d) An 'infringing article' as used herein is any article, the design of which has been copied from the protected design, without the consent of the proprietor, except that an illustration or picture of a protected design in an advertisement, book, periodical, newspaper, photograph, broadcast, motion picture, or similar medium shall not be deemed to be an infringing article. An article is not an infringing article if it embodies, in common with the protected design, only elements described in paragraphs (1) through (4) of section 1002(a).

"(e) The party alleging rights in a design in any action or proceeding shall have the burden of affirmatively establishing its originality whenever the opposing party introduces an earlier work which is identical to such design, or so similar as to make a prima facie showing that such design was copied from such work.

"(f) It is not an infringement of the exclusive rights of a design owner for a person to reproduce the design in a useful article or in any other form solely for the purpose of teaching, analyzing, or evaluating the appearance, concepts, or techniques embodied in the design, or the function of the useful article embodying the design.

"APPLICATION FOR REGISTRATION

"SEC. 1009. (a) Protection under this chapter shall be lost if application for registration of the design is not made within one year after the date on which the design was first made public.

"(b) A design is made public when, by the proprietor of the design or with his consent, an existing useful article embodying the design is anywhere publicly exhibited, publicly distributed, or offered for sale or sold to the public.

"(c) Application for registration may be made by the proprietor of the design.

"(d) The application for registration shall be made to the Administrator and shall state (1) the name and address of the author or authors of the design; (2) the name and address of the proprietor if different from the author; (3) the specific name of the article, indicating its utility; (4) the date, if any, that the design was first made public, if such date was earlier than the date of application; (5) affirmation that the design has been fixed in a useful article; and (6) such other information as may be required by the Administrator. The application for registration may include a description setting forth the salient features of the design, but the absence of such a description shall not prevent registration under this chapter.

"(e) The application for registration shall be accompanied by a statement under oath by the applicant or his duly authorized agent or representative, setting forth that, to the best of his knowledge and belief (1) the design is original and was created by the author or authors named in the application, (2) the design has not previously been registered on behalf of the applicant or his predecessor in title, and (3) the applicant is the person entitled to protection and to registration under this chapter. If the design has been made public with the design notice prescribed in section 1006, the statement shall also describe the exact form and position of the design notice.

"(f) Error in any statement or assertion as to the utility of the article named in the application, the design of which is sought to be registered, shall not affect the protection secured under this chapter.

"(g) Errors in omitting a joint author or in naming an alleged joint author shall not affect the validity of the registration, or the actual ownership or the protection of the design if it is shown that the error occurred without deceptive intent. Where the design was made within the regular scope of the author's employment and individual authorship of the design is difficult or impossible to ascribe and the application so states, the name and address of the employer for whom the design was made may be stated instead of that of the individual author.

"(h) The application for registration shall be accompanied by two copies of a drawing or other pictorial representation of the useful article having one or more views, adequate to show the design, in a form and style suitable for reproduction, which shall be deemed a part of the application.

"(i) Where the distinguishing elements of a design are in substantially the same form in a number of different useful articles, the design shall be protected as to all such articles when protected as to one of them, but not more than one registration shall be required.

"(j) More than one design may be included in the same application under such conditions as may be prescribed by the Administrator. For each design included in an application the fee prescribed for a single design shall be paid.

"BENEFITS OF EARLIER FILING DATE IN FOREIGN COUNTRY

"SEC. 1010. An application for registration of a design filed by any person or his assignees who has previously duly filed an application for registration of the same design in a foreign country shall have the same effect as if filed in the United States on the same date on which the application was first filed in any such foreign country, if—

(1) such foreign country affords similar privileges in the case of an application filed in the United States or to citizens of the United States, and

(2) such application in the United States is filed within six months after the earliest date on which any such foreign application was filed.

"OATHS AND ACKNOWLEDGMENTS

"SEC. 1011. (a) Oaths and acknowledgments required by this chapter may be made before—

"(1) any person in the United States authorized by law to administer oaths,

"(2) any diplomatic or consular officer of the United States authorized to administer oaths when made in a foreign country, or

"(3) any official authorized to administer oaths in the foreign country concerned, whose authority shall be proved by a certificate of a diplomatic or consular officer of the United States, and shall be valid if it complies with the laws of the State or country where made.

"(b) The Administrator may, by rule, prescribe that any document to be filed in the Office of the Administrator which is required by any law, rule, or other regulation to be under oath, may be subscribed to by a written declaration. Such declaration shall be in such form as the Administrator may prescribe and shall be in lieu of the oath otherwise required.

"(c) Whenever a written declaration, as permitted in subsection (b), is used, the document must warn the declarant that willful false statements and the like are punishable by fine or imprisonment, or both, pursuant to section 1001 of title 18, and may jeopardize the validity of the application, document, or a registration resulting therefrom.

"EXAMINATION OF APPLICATION AND ISSUE OR REFUSAL OF REGISTRATION

"SEC. 1012. (a) Upon the filing of an application for registration in proper form as provided in section 1009, and upon payment of the fee provided in section 1015, the Administrator shall determine whether or not the application relates to a design which on its face appears to be subject to protection under this chapter, and if so the Administrator shall register the design. Registration under this subsection shall be announced by publication. The date of registration shall be the date of publication.

"(b) If, in the judgment of the Administrator, the application for registration relates to a design which on its face is not subject to protection under this chapter, the Administrator shall send the applicant a notice of refusal to register and the grounds therefor. The applicant shall have three months after the notice of referral is sent to request, in writing, reconsideration of his application. After consideration of such a request, the Administrator shall either register the design or send the applicant a notice of final refusal to register.

"(c) Any person who believes he is or will be damaged by a registration under this chapter may, upon payment of the prescribed fee, apply to the Administrator at any time to cancel the registration on the ground that the design is not subject to protection under the provisions of this chapter, stating the reasons therefor. Upon receipt of an application for cancellation, the Administrator shall send the proprietor of the design, as shown in the records of the Office of the Administrator, a notice of such application, and the proprietor shall have a period of three months after the date such notice was mailed to present arguments in support of the validity of the registration. It shall also be within the authority of the Administrator to establish conditions, by regulation, under which the opposing parties may appear and be heard in support of their arguments. If, after the periods provided for the presentation of arguments have expired, the Administrator determines that the applicant for cancellation has established that the design is not subject to protection under the provisions of this chapter, he shall order the registration stricken from the record. Cancellation under this subsection shall be announced by publication, and notice of the Administrator's final determination with respect to any application for cancellation shall be sent to the applicant and to the proprietor of record.

"(d) When a design has been registered under this section, the lack of utility of any article in which it has been embodied shall be no defense to an infringement action under section 1020, and no ground for cancellation under subsection (c) of this section or under section 1023.

"CERTIFICATION OF REGISTRATION

"SEC. 1013. Certificates of registration shall be issued in the name of the United States under the seal of the Office of the Administrator and shall be recorded in the official records of such Office. The certificate shall—

"(1) state the name of the useful article,

"(2) state the date of filing of the application,

"(3) state the date of registration,

"(4) state the date the design was made public, if such date the design was made public was earlier than the date of filing of the application, and

"(5) contain a reproduction of the drawing or other pictorial representation showing the design.

Where a description of the salient features of the design appears in the application, such description shall also appear in the certificate. A certificate of registration shall be admitted in any court as prima facie evidence of the facts stated therein.

"PUBLICATION OF ANNOUNCEMENTS AND INDEXES

"SEC. 1014. (a) The Administrator shall publish lists and indexes of registered designs and cancellations thereof and may also publish the drawings or other pictorial representations of registered designs for sale or other distribution.

"(b) The Administrator shall establish and maintain a file of the drawings or other pictorial representations of registered designs, which file shall be available for use by the public under such conditions as the Administrator may prescribe.

"FEES

"SEC. 1015. (a) There shall be paid to the Administrator the following fees:

"(1) On filing each application for registration or for renewal of registration of a design, $15.

"(2) For each additional related article included in one application, $15.

"(3) For recording an assignment, $2 for the first six pages, and for each additional two pages or less, $1.

"(4) For a certificate of correction of an error not the fault of the Office, $10.

"(5) For a certification of copies of records, $1.

"(6) On filing each application for cancellation of a registration, $15.

"(b) The Administrator may establish charges for materials or services furnished by the Office, not specified in this section which are reasonably related to the cost thereof.

"REGULATIONS

"SEC. 1016. The Administrator may establish regulations, not inconsistent with law, for the administration of this chapter.

"COPIES OF RECORDS

"SEC. 1017. Upon payment of the prescribed fee, any person may obtain a certified copy of any official record of the Office of the Administrator, which copy shall be admissible in evidence with the same effect as the original.

"CORRECTION OF ERRORS IN CERTIFICATES

"SEC. 1018. The Administrator may correct any error in a registration incurred through the fault of the Office, or, upon payment of the required fee, any error of a clerical or typographical nature not the fault of the Office, occurring in good faith, by a certificate of correction under seal. Such registration, together with the certificate, shall thereafter have the same effect as if the same had been originally issued in such corrected form.

"OWNERSHIP AND TRANSFER

"SEC. 1019. (a) The property right in a design subject to protection under this chapter shall vest in the author, the legal representatives of a deceased author or of one under legal incapacity, the employer for whom the author created the design in the case of a design made within the regular scope of the author's employment, or a person to whom the rights of the author or of such employer have been transferred. The person or persons in whom the property right is vested shall be considered the proprietor of the design.

"(b) The property right in a registered design, or a design for which an application for registration has been or may be filed, may be assigned, granted, conveyed, or mortgaged by an instrument in writing, signed by the proprietor, or may be bequeathed by will.

"(c) An acknowledgment as provided in section 1011 shall be prima facie evidence of the execution of an assignment, grant, conveyance, or mortgage.

"(d) An assignment, grant, conveyance, or mortgage shall be void as against any subsequent purchaser or mortgagee for a valuable consideration, without notice, unless it is recorded in the Office of the Administrator within three months from its date of execution or prior to the date of such subsequent purchase or mortgage.

"REMEDY FOR INFRINGEMENT

"SEC. 1020. (a) The proprietor of a design shall have a remedy for infringement by a civil action instituted after the date of the issuance of a certificate of registration of the design.

"(b) The proprietor of a design may have judicial review of a final refusal by the Administrator to register the design, by a civil action brought for infringement and shall have a remedy for infringement by the same action if the court adjudges the design subject to protection under this chapter, if (1) he has previously duly filed and duly prosecuted to such final refusal an application in proper form for registration of the design, and (2) he causes a copy of the complaint in the action to be delivered to the Administrator within ten days after the commencement of the action, and (3) the defendant has committed acts in respect to the design which would constitute infringement with respect to a design protected under this chapter.

"(c) The Administrator may, at his or her option, become a party to the action with respect to the issue of registrability of the design claim by entering an appearance within sixty days after such service, but the Administrator's failure to become a party shall not deprive the court of jurisdiction to determine such issue.

"(d) The parties to an infringement dispute under this chapter may determine such contest or any aspect thereof by arbitration, within such time as may be specified by the Administrator by regulation. Such arbitration shall be governed by the provision of title 9 to the extent such title is not inconsistent with this section. The parties shall give notice of any arbitration award to the Administrator, and such award shall, as between the parties to the arbitration be dispositive of the issues to which it relates. The arbitration award shall be unenforceable until such notice is given. Nothing in this subsection shall preclude the Administrator from determining whether a design is subject to registration in a cancellation proceeding under section 1013(c).

"INJUNCTION

"SEC. 1021. The several courts having jurisdiction of actions under this chapter may grant injunctions in accordance with the principles of equity to prevent infringement, including, in their discretion, prompt relief by temporary restraining orders and preliminary injunctions.

"RECOVERY FOR INFRINGEMENT

"SEC. 1022. (a) Upon finding for the claimant, the court shall award such claimant damages adequate to compensate for the infringement, but in no event shall such award be less than the reasonable value for, in addition, the court may increase the damages to such amount, not exceeding $50,000 or $1 per copy, whichever is greater. The damages awarded in any of the above circumstances shall constitute compensation and not a penalty. The court may receive expert testimony as an aid in determining the amount of damages to be awarded.

"(b) Alternatively, the court may award the claimant the infringer's profits resulting from the sale of the copies if it finds that the infringer's sales are reasonably related to the use of the claimant's design. In such a case, the claimant shall be required to prove only the infringer's sales and the infringer shall be required to prove its expenses against such sales.

"(c) No recovery under paragraph (a) or (b) shall be had for any infringement committed more than three years prior to the filing of the complaint.

"(d) The court may award reasonable attorney's fees to the prevailing party. The court may also award other expenses of suit to a defendant prevailing in an action brought under section 1020(b).

"(e) The court may order that all infringing articles, and any plates, molds, patterns, models, or other means specifically adapted for making the same be delivered up for destruction or other disposition as the court may direct.

"POWER OF COURT OVER REGISTRATION

"SEC. 1023. In any action involving a design for which protection is sought under this chapter, the court, when appropriate, may order registration of a design or the cancellation of a registration. Any such order shall be certified by the court to the Administrator, who shall make an appropriate entry upon the record.

"LIABILITY FOR ACTION ON REGISTRATION FRAUDULENTLY OBTAINED

"SEC. 1024. Any person who shall bring an action for infringement knowing that registration of the design was obtained by a false or fraudulent representation materially affecting the rights under this chapter, shall be liable in the sum of $1,000, or such part thereof as the court may determine, as compensation to the defendant, to be charged against the plaintiff and paid to the defendant, in addition to such costs and attorney's fees of the defendant as may be assessed by the court.

"PENALTY FOR FALSE MARKING

"SEC. 1025. (a) Whoever, for the purpose of deceiving the public, marks upon, or applies to, or uses in advertising in connection with any article made, used, distributed, or sold, a design notice as specified in section 1006 or any other words or symbols importing that the design is protected under this chapter, knowing that the design is not so protected, shall be fined not more than $500 for every such offense.

"(b) Any person may sue for the penalty, in which event, one-half shall go to the person suing and the other to the use of the United States.

"PENALTY FOR FALSE REPRESENTATION

"SEC. 1026. Whoever knowingly makes a false representation materially affecting the rights obtainable under this chapter for the purpose of obtaining registration of a design under this chapter shall be fined not less than $500 nor more than $1,000, and any rights or privileges he may have in the design under this chapter shall be forfeited.

"RELATION TO COPYRIGHT LAW

"SEC. 1027. (a) Nothing in this chapter shall affect any right or remedy now or hereafter held by any person under chapters 1 through 8 of this title.

"(b) When a pictorial, graphic, or sculptural work in which a copyright subsists under chapters 1 through 8 of this title is utilized in an original ornamental design of a useful article by the copyright proprietor or under an express license from such proprietor, the design shall be eligible for protection under the provisions of this chapter.

"RELATION TO PATENT LAW

"SEC. 1028. (a) Nothing in this chapter

shall affect any right or remedy available to or held by any person under title 35.

"(b) The issuance of a design patent for an ornamental design for an article of manufacture under title 35 shall terminate any protection of the design under this chapter.

"COMMON LAW AND OTHER RIGHTS UNAFFECTED

"Sec. 1029. Nothing in this chapter shall annul or limit (1) common law or other rights or remedies, if any, available to or held by any person with respect to a design which has not been registered under this chapter, or (2) any trademark rights or right to be protected against unfair competition.

"ADMINISTRATOR

"Sec. 1030. The Administrator and Office of the Administrator referred to in this chapter shall be the Register of Copyrights and Library of Congress, respectively."

(b) The table of chapters at the beginning of title 17, United States Code, is amended by adding at the end thereof the following:

"10. Protection of industrial designs of useful articles ..... 1001".

SEVERABILITY CLAUSE

Sec. 3. If any provisions of this Act or the amendments made by this Act or the application of any such provision to any person or circumstance is held invalid, the remainder of this Act or the application to other persons or circumstances shall not be affected thereby.

AMENDMENT OF OTHER STATUTES

Sec. 4. Title 28 of the United States Code is amended by—

(1) inserting "designs," after "patents," each place it appears in section 1338(a);

(2) inserting "design," after "copyright," in section 1338(b);

(3) inserting "and registered designs" after "copyrights" in section 1400(a); and

(4) amending section 1498(a) to read as follows:

"(a)(1) Whenever a registered design or invention described in and covered by a patent of the United States is used or manufactured by or for the United States without license of the owner thereof or lawful right to use or manufacture the same, the owner's remedy shall be by action against the United States in the Court of Claims for the recovery of his reasonable and entire compensation for such use and manufacture.

"(2) For the purposes of this section, the use or manufacture of a registered design or an invention described in and covered by a patent of the United States by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government, shall be construed as use or manufacture for the United States.

"(3) The court shall not award compensation under this section if the claim is based on the use or manufacture by or for the United States of any article owned, leased, used by, or in the possession of the United States, prior to, in the case of an invention, July 1, 1918, and in the case of a registered design, the effective date of this section.

"(4) A Government employee shall have the right to bring suit against the Government under this section except where such employee was in a position to order, influence, or induce use of the registered design or invention by the Government. This section shall not confer a right of action on any design registrant or patentee or any assignee of such design registrant or patentee with respect to any design created by or invention discovered or invented by a person while in the employment or service of the United States, where the design or invention was related to the official functions of the employee, in cases in which such functions included research and development, or in the making of which Government time, materials, or facilities were used."

EFFECTIVE DATE

Sec. 5. This Act and the amendments made by this Act shall take effect one year after the date of enactment of this Act.

NO RETROACTIVE EFFECT

Sec. 6. Protection under chapter 10 of title 17, United States Code, as added by this Act, shall not be available for any design that has been made public as provided in section 1009(b) of title 17, United States Code, prior to the effective date of this Act.

SCOPE

Sec. 7. Section 113 of title 17, United States Code, is amended by adding at the end thereof the following new subsection:

"(d) Protection under chapters 1 through 8 of this title of a work in which copyright subsists shall not terminate with respect to its utilization in useful articles whenever the copyright proprietor or its authorized person has obtained registration of a design of a useful article embodying said work under the provisions of chapter 10 of this title."●

Senator DECONCINI. I will now yield to my colleague and good friend from Utah, Senator Hatch, for any opening statement.

OPENING STATEMENT OF HON. ORRIN G. HATCH, A U.S. SENATOR FROM THE STATE OF UTAH

Senator HATCH. Well, thank you, Senator DeConcini. I appreciate your calling this for me, and I also appreciate your leadership in this area as I have through the years in so many areas and on so many issues.

I am honored to join my colleague, Senator DeConcini, in this hearing on this bill, the Innovation and Technology Act of 1987, and I want to particularly commend the chairman for recognizing the need for protection of industrial and ornamental designs. Most countries in the world, including Japan, have effective copyright-like protections for industrial designs, the shape and the appearance of a product as distinguished from its function or workings. However, here in the United States this type of design protection is minimal if not, in fact, nonexistent. U.S. manufacturers have attempted to protect their industrial designs through the use of existing patent laws, but these patent laws have not adequately protected ornamental design because most designs cannot meet the necessary test of being unobvious. Even if a product meets that test, an examination to determine unobviousness often takes 2 years, by which time many designs have lost their marketability.

Similarly, copyright laws only protect genuine works of art and trademark laws only protect distinctive containers. Any product or package with the least degree of functionality certainly loses any trademark or copyright protection under our law. This means that the expensive R&D market analysis and engineering invested in ornamental designs—these are often lost to counterfeiters. To meet this problem, there have been various proposals for counterfeit protection—protection against counterfeits—by giving copyright protection for original and distinctive design.

This bill provides protection comparable to that now found among our foreign competitors for a period of around 10 years. This protection would extend to a wide range of products, basically any product with distinctive design, shape, or appearance. Like all legislation, however, we must seek the proper balance. In intellectual property law, we must often balance the proper incentive for creativity and inventiveness with the proper protections against monopolies that could damage competitiveness.

Legitimate questions have been raised about restrictions on legitimate aftermarket replacement parts as a result of this bill. For example, distinctive auto shapes and designs may well be protected by the bill; this could frustrate the auto replacement parts industry and increase the cost of auto insurance for fender-bender accidents. So I look forward during this hearing to seeking ways to preserve competitiveness in markets for metal, plastic, and glass parts used in the repair of damaged automobiles, vans, and other vehicles.

Consumers ought to continue to benefit from the extensive price competition that presently exists in the manufacture and sale of these crash parts, and we would want to be careful not to preempt an area of marketplace competition and turn it into a monopoly.

So I would strongly urge all of my colleagues to give this legislation the careful consideration it deserves, and provide the U.S. manufacturing industry a much-needed protection for today's highly competitive marketplace.

So, Mr. Chairman, I am happy to be with you in these hearings and happy to listen with you and hope we can arrive at the right conclusions in the end.

Senator DECONCINI. Thank you, Senator Hatch.

Before introducing our first witness I want to mention a couple of things. The Commissioner of the Patent and Trademark Office will be testifying on this matter April 22 when he comes before the subcommittee on a number of patent and trade issues. The Register of Copyrights will be submitting a written statement for the record. I have received other letters and statements, and we will include them in the record.

I would like to ask all our witnesses, because of time constraints, to keep their oral testimony confined to 5 minutes. Their full statements will be printed in the record.

Our first witness today is Giles Rich, who sits on the U.S. Court of Appeals for the Federal Court. Judge Rich has been a distinguished jurist and has a distinguished career of practicing intellectual property law in addition to his service on the bench.

I want to thank you, Judge Rich, for taking the time today to be with us. You have played a major role in the history of the development of design protection and we look forward to hearing from you today, Judge.

STATEMENT OF HON. GILES S. RICH, U.S. COURT OF APPEALS, FEDERAL CIRCUIT, WASHINGTON, DC

Judge RICH. Thank you, Senator DeConcini, Senator Hatch.

The first question, I think, is why I should be here at all. As you know, the Federal Judiciary Code of Ethics restrains judges from promoting substantive legislation, and I am here by your invitation in my private capacity to lend a little historical background to the opening of these hearings because of the connection I had with legislation of this type a long time ago, Senator, about the time you were getting out of high school, I think.

I became chairman of the committee charged in 1954 by the organized Patent Bar to draft a bill for the better protection of designs, which was no surprise to me because when we wrote the 1952 Patent Act, protection of designs was known to be a somewhat difficult problem. The Patent Act was primarily a codification, and we deliberately laid aside the whole problem of design legislation to be taken up at a later date, and that is what that committee that I was chairman of did.

We drafted a bill, and the reason I am here today is to remind you of where this all came from and to say definitely that I am not testifying as a judge or on behalf of the judiciary in any way, but merely as a private citizen who had an early connection with this. If I represent anybody, I would say that it is the hundreds of thousands of small business enterprises out there that we don't even know about who create new products which do have ornamental designs and for which they want protection and for which there is

definitely no Federal statute today suited to the needs of designers and design owners.

My prepared statement consists largely of two statements that I made previously at hearings of this kind in the years 1963 and 1976, and I ask that they be entered in the record.

Senator DECONCINI. Without objection, they will appear in the record.

Judge RICH. I will just make some remarks on some of the high spots of what I had in my mind.

Senator DECONCINI. Thank you, Judge.

Judge RICH. The reason why legislation existing today is inadequate is that we have two inappropriate kinds. We have design patents and we have copyrights.

Some designs, if they can qualify as works of art, can sneak in under the copyright law and get very long-term protection; however, most designs for products such as you'll hear about today cannot possibly be classified as works of art.

On the other hand, we have the design patent law whereunder ornamental designs, or "industrial designs" as your bill calls them, have to meet the same requirements of patentability which apply to all other sorts of inventions. And the particular obstacle in the patent statute is, as you just mentioned, the requirement for unobviousness, and very few ornamented designs can meet that requirement. In my court we review the Patent Office and we review the district courts where these patents come under review, and we know very well that the great bulk of industrial design is simply not protectable by design patents. When you can get them, they're good, perhaps; but, as I believe Senator Hatch said in his introductory statement to the Congress in presenting your bill—even after you've got a design patent, the chances are only about one out of three that it may be sustained by a court. So that is not very good protection either.

This enterprise started, as you well know, a long time ago. In fact, it goes back to 1914; there were bills in 1914 with long hearings. The whole thing has a history which has justified a bibliography, prepared by the Copyright Office, which runs to 160 pages; and that's nothing but a bibliography and some background material.

I have provided your staff with a copy of an opinion, a 1981 case in the Court of Customs and Patent Appeals, which is a predecessor of the court I'm now on, which shows quite clearly how fairly simple designs cannot meet the requirement of unobviousness under the patent law, found in 35 U.S.C. § 103. *In re Nalbandian,* 211 USPQ 782 (CCPA 1981).

I have brought to you, Senator, something I give you with some pleasure, an autographed copy of the first bill prepared by my committee, March 1957; this is March 1987. And if I may, I would just like to leave it with you.

Senator DECONCINI. I'd like to have that, Judge. Thank you.

Judge RICH. The opinions in the case I just referred to, *In re Nalbandian,* say very much what I have just said now, and I there said in a concurring opinion that it's high time that we got down to enacting this legislation which has now been kicking around a very long time, in its most recent form at least for 30 years. And if you

have no questions, I will leave it to the other witnesses to tell you the rest of the story.

[Submissions of Judge Rich follow:]

PREPARED STATEMENT OF GILES S. RICH

SUMMARY

There is a longstanding need for a sui generis statute adapted specifically to the protection of ornamental designs for useful articles, the majority of which cannot be protected satisfactorily, if at all, under existing patent or copyright laws.

* * *

MR. CHAIRMAN:

I was surprised and pleased to receive an invitation late last week to appear here today to say something on the subject of legislation which has been proposed for the protection of ornamental designs. When invited, I was given to understand that a bill was about to be introduced. As these comments are being put down on paper, I have not seen the bill and I proceed on an assumption that it is the latest in a long succession of bills, reaching back more than 30 years to a time when I took part in the drafting of such a bill, which would provide a copyright type of protection for designs by simple registration, liability for infringement being predicated on actual copying.

Under these circumstances, my comments are necessarily very general and will be very brief. I speak on behalf of nobody other than myself. My interest in this matter is longstanding but I have not actively pursued it for many years. As reports of hearings on prior bills will show, I have testified before this body before. In the second session of the 86th Congress I testified in support of an O'Mahoney, Wiley, and Hart bill S. 2075 on June 29, 1960; again in the 87th Congress, 2nd Session, August 15, 1961 on Hart, Wiley, and Talmadge bill S. 1884; on December 12, 1963 I testified

before a House subcommittee on three similar bills, H.R.323, H.R. 769, and H.R. 5523. These are but a few of the many bills which have been introduced and considered and sometimes passed by one or the other of the Senate or House in the last three decades.

My purpose today is to explain to this committee the recent history of this design protection project, the initiation of which I was partly responsible for. In my previous testimony I have fully explained it so, to prevent repetition, my explanation takes the form of two attachments hereto. Attachment A is a copy of my 1963 statement to the House subcommittee. Attachment B is a copy of a letter I was asked to write to Congressman Kastenmeier, dated 20 April 1976, which was my last contact with the Congress on this matter. It adds some further information but requires some explanation because it refers to a copyright law revision bill. In 1976 Congress passed a new copyright law after many years of preparatory studies and consideration of many bills. Toward the end, the long-pending design protection proposal in which the Copyright Office had been very interested, was incorporated into the copyright law revision bill as Title II thereof. My letter to Mr. Kastenmeier, Attachment B, was a comment on that Title II. However, in the final stages of the consideration, Title II was sacrificed in order to assure the passage of the copyright legislation, the congressmen saying, as they had in passing the 1952 Patent Act, they would take design protection up later.

So here we are in 1987 once again reconsidering the enactment of effective design legislation.

Unlike many witnesses you will hear who will be representing some commercial interest, my position is simply that of a lawyer and judge who would like to see this country have a coherent body of law at least as good as that which several other countries have, properly adapted to the peculiarities of the subject matter treated.

The existing situation as I see it is as follows:

There is no statutory law expressly adapted to provide

appropriate protection for the majority of ornamental designs of useful objects.

A minor percentage of designs may be protected under the copyright law if they can qualify under that law as "works of art," a term carrying a fine arts connotation.

Some designs may be protected by patents if they can meet the stringent requirements for the patentability of inventions which include novelty and, most significantly, unobviousness to "a person having ordinary skill in the art," which the courts have defined to mean a designer of ordinary skill. This tends to make the mill-run of designers' work unpatentable. A major defect of the patent law, however, is that it requires examination of an application for novelty and unobviousness which takes a minimum of about two years and often many more, by which time a design may have lost much of its market value.

A fairly typical example of the design patent situation may be seen in the case of In re Nalbandian, 661 F.2d 1214, 211 USPQ 782 decided by the Court of Customs and Patent Appeals in 1981, a split decision on patentability in which I was moved to express my views at some length in a concurring opinion on the need for legislation such as is before this committee. I am sure your staff has seen the case. A comparable case decided the same day is In re Spreter, 661 F.2d 1220, 211 USPQ 866, in which I felt obliged by the law to deny patent protection, the whole court agreeing. Personally, I feel that the manufacturers of the articles involved in these two cases should have been afforded protection from copying of the designs they paid someone to make by an appropriate law such as that here under consideration.

Were it not so, I would not have spent so many long days and nights back in the '50's and '60's helping to write and revise and explain to Congress the ancestors of the bill before you, which I did as a public service. Nor would I be here now.

What Congress has been asked to do practically on an annual basis over the past 30 years is to complete a task which was

deferred by those who wrote and got enacted the Patent Act of 1952. Many if not most of the people who did that work are now dead and still the job is not done. Again, another group working on the revision of the copyright laws and very much interested in enacting a proper ornamental design protection law, which was a separate problem, laid it aside for later attention in order to deal with certain complexities of their main endeavor, which was enacted in 1976, eleven years ago.

In 1984 Congress came up with the Semiconductor Chip Protection Act, which is now law, which Congressman Kastenmeier characterized as the first "sui generis intellectual property law specifically directed to the characteristics of a new technology." What the organized bar, the Patent and Trademark Office and the Copyright Office would now like to see is a sui generis law specifically directed to the problems surrounding ornamental designs. I know at least one court that would be glad to see it too.

The task confronting this committee and the 100th Congress is, therefore, the completion of work put aside for later attention, first, by the drafters of the Patent Act of 1952 and, second, by the drafters of the Copyright Act of 1976. The mills of the law grind slowly indeed.

I have been greatly puzzled as to why this design protection has heretofore always died short of passage by both houses after the expenditure of great amounts of time and energy. It is my guess — and yours may be better — that it is because the multitude of small businesses who would benefit from this bill are not politically organized and are perhaps even unaware of pending legislation. Congress therefore feels no pressure from them. Then, when a bill seems on the verge of passage, very few, even one or two, very vocal strong opponents make themselves heard in the right places and action on the bill comes to a halt. You know far better than I do how that is done. This, it seems to me is minority government.

I urge the committee, therefore, to tune in on the views of

bar groups throughout the country who have been for years expressing what they deem to be the public interest in this field and not be overwhelmed by the vocal minority. No law can be passed that is not against the private interest of someone. This law is definitely against the interests of "knock-off" artists, counterfeiters, and copyists generally who contribute nothing to improvement or innovation in the design of our manufactures. It is for the protection, and thus the stimulation, of those who pay the price for improving product design — which is only fair.

ATTACHMENT A

H.R. 323
H.R. 769
H.R. 5523

HEARING 12 Dec. 1963

Statement of Giles S. Rich

MR. CHAIRMAN:

I am Giles S. Rich of Washington. I am submitting this statement on H.R. 323, H.R. 769 and H.R. 5523. Since 1956 I have been a judge of the United States Court of Customs and Patent Appeals but I do not appear in that official capacity. I appear as Chairman of the Coordinating Committee of the National Council of Patent Law Associations, which committee played a large part in drafting the above bills, as I will explain.

In this statement it is my purpose to sketch for you the background and origins of those bills. What I am about to say I said in substance on June 29, 1960, at the hearings on the O'Mahoney, Wiley and Hart bill, S. 2075, 86th Cong., 2nd Sess., and again on the Hart, Wiley and Talmadge bill, S. 1884, 87th Cong., 2nd Sess., on August 15, 1961.

Before my appointment to the court over seven years ago I had practiced law in New York for twenty-seven years,

specializing in the field of patents, trademarks, and copyrights. The protection of designs of useful articles falls in this field so I have been familiar with it all of my professional life. Vicariously, my familiarity with it is twice that long for I was introduced to it more than thirty years ago by my then employer and later senior partner, Henry D. Williams, a champion of the cause to which these bills are directed, who said to me at that time "I have labored for thirty years to get better protection for designs." You will find his name in the hearings on many early bills directed to this same purpose.

There was legislative activity on improving design protection prior to the turn of the century and during various periods since then, in the years of World War I, before and after 1930 in which year a bill was very nearly enacted, going so far as to pass the House and to be reported out of committee after hearings in the Senate, and in 1947-1948. After a ten-year hiatus we come to the present period. Clearly we are not pioneering new territory like atomic energy or space and there is a rich background of experience behind these bills now before you.

At the same time, I think that before these hearings are over there will be ample and specific testimony as to why today the need for legislation is more acute than ever.

I will now explain the above-mentioned Coordinating Committee and how it got into this endeavor. This will also explain how I come to be making this statement.

In the years 1950, 1951 and the first half of 1952 the patent laws were codified, as you will well remember, under the jurisdiction of this very same subcommittee. What we now know as the Patent Act of 1952 was signed by the President on the 4th of July in that year. The drafting of that patent law was largely done by a group of patent lawyers in cooperation with Government lawyers from various departments and was based on a draft prepared for the subcommittee by Mr. Federico of

the Patent Office, who is well known to your Committee. This group of experts was gathered together through the medium of the National Council of Patent Law Associations. There were then about two dozen local patent law associations, located in the principal cities from coast to coast, and the Council was -- and is -- their central office in Washington. The group that was assembled called itself the Coordinating Committee and brought in also representatives from a few industry associations interested in the matter. The Coordinating Committee also had a small drafting committee, of which I was a member. I speak, therefore, from personal knowledge of what was done.

We have had a statutory provision for the protection of designs by patents since 1842. As I have already indicated by reference to past legislative proposals, those familiar with the working of those design patent laws have been acutely conscious of their defects and inadequacies and have been trying to correct them for over sixty years.

The lawyers who were working on the revision and codification of the patent laws in 1950-1952 were well aware of the fact that remedying the defects of design protection was a highly specialized problem of considerable complexity -- to which the length of the present bills is eloquent testimony -- involving problems quite unrelated to patents for inventions other than ornamental designs. They had as a major objective the speedy enactment of a new patent code and to further that objective the decision was made to make no attempt to change the law of design patents. It was therefore retained substantially without change as an integral part of our general law of patents, where it is still to be found as three short sections (171, 172, and 173) plus one special section (289) on damages. This decision to do nothing about designs at that time was made with the intention to take up the design problem as a special project at a later date.

For two and a half years following the enactment of the Patent Act of 1952 (Title 35, United States Code) there was a period of inactivity. The original chairman of the Coordinating Committee, Mr. Henry Ashton, then retired from that post and I assumed it, at the request of the chairman of the National Council of Patent Law Associations, for the specific purpose of tackling the design protection problem. The committee was revived, reconstituted so as to be composed of representatives of groups and individuals having an interest in the problem, a new drafting committee was appointed and again we went to work on the basis of a draft of a proposed bill which had been written for the Coordinating Committee by Mr. Federico and another draft prepared by a committee of the New York Patent Law Association. That was in the autumn of 1954.

Mr. Federico, in his usual thorough and scholarly way, based his proposals on a study of all prior bills and what had happened to them. The drafting committee consisted of highly qualified men, Albert C. Johnston of New York who, in 1936, cut his teeth on the problem with a 211 page study of design piracy for the NRA; George E. Frost of Chicago who won the Mazer v. Stein case in the Supreme Court, holding figurine lamp bases subject to copyright; and Philip T. Dalsimer, of New York, a practicing lawyer of wide experience in the field and a drafter of the aforesaid New York proposed bill. We also had the advice and assistance of George D. Cary, then Deputy Register in the Copyright Office and Barbara A. Ringer, then Chief, Examining Division, of that office who was responsible for producing 230 pages of bibliography on the subject. All of these people worked as a team to draft a bill. You will come to appreciate the quality of the product, I believe.

After several meetings of the full Coordinating Committee and meetings with other groups, and many meetings and much labor by the drafting committee, the culmination of our efforts was the introduction in the House, on July 23,

1957, over two and a half years from the commencement of the project, of the Willis bill, H.R. 8873, 85th Cong., 1st Sess. The remarks of Mr. Willis in introducing that bill, by request, appear in the Congressional Record for July 23 at page 11320 and they show that the bill was introduced so that it might be widely disseminated and studied by interested parties with a view to hearings in a later session of Congress.

As a practical matter, H.R. 323, H.R. 769, and H.R. 5523 are what has resulted from the dissemination of the Willis bill, its subsequent refinement in the course of consideration in and passage by the Senate, and it is basically the Willis bill with a few changes which have resulted from the public reaction to it. These bills being considered today have resulted from the efforts of the Coordinating Committee and many others who have contributed to this effort to improve the law.

I think this committee will appreciate that the bills now before it are not a thing lightly conceived but are bills into which years of effort by many qualified people has been incorporated. I lost count of the number of drafts which the original Willis bill went through, each of which was subjected to penetrating critical examination by the entire committee and by other associations which made their views known through committee representation. Naturally, there will always be a few who may object to features of the bill, even to the bill as a whole, but I think the bills we now have represent, according to the democratic process, the considered judgment of a large majority to which opposition has practically vanished.

As I have indicated, the Coordinating Committee, up to the introduction of the original Willis bill, performed a dual function. It represented a group which had a dual interest: drafting the best possible bill and getting that bill introduced and enacted into law. Subsequent to the introduction of the bill, the drafting having been finished for the time being, a

schism took place. The group interested primarily in bringing about the enactment into law of such a bill has organized itself as the NCEDL, the National Committee for Effective Design Legislation, from whom you will also hear through Alan Latman. The committee I represent is now, therefore, a bar group making available to you the product of its legislative drafting talents.

As the final matter in my presentation I would now like to state my concept of the need for this legislation. The Coordinating Committee did not do these years of hard work as an intellectual exercise.

The only legislation ever enacted for the specific purpose of protecting the ornamental designs of useful objects has been our design patent laws. They are an integral part of the patent law, Title 35, United States Code, the purpose and design of which is the protection of inventions in the fields of mechanics, electricity, chemistry and the like. It is the policy of that law not to grant patents on such inventions unless they are new, useful, and unobvious to one of ordinary skill in the relevant art. The Patent Office exists to pass on those requirements with an examining corps of about 1000 technically educated people, a time-consuming process, most of which is spent in searching for novelty and arguing about unobviousness. The design patent law as an integral part of this code states that

> The provisions of this title relating to patents for inventions shall apply to patents for designs, except as otherwise provided. (35 U.S.C. 171).

The principal things "otherwise provided" are that designs must be "ornamental" rather than "useful" and the term of the patent is different. As with other inventions, however, novelty is required and a search must be made to determine it; and the design invention must be unobvious to one of ordinary skill in the art, who would presumably be a designer by profession. This latter requirement was formerly called the requirement for "invention," a requirement that there be some undefinable

quality present which in the case of a patent on a machine, for example, is to be distinguished from mere mechanical skill, or what would be obvious to a mechanic familiar with the type of machine involved.

This committee will appreciate the major problem this law presents if it will attempt in its own mind to figure out how, as a court, it would go about determining that any given completed ornamental design would be unobvious to a professional designer of ordinary skill or competence as a designer or would involve "invention." Add to this the many former adjudications, including those of my own court, that the so-called "standard of invention," or the more recent decisions that there must be unobviousness, is the same for ornamental design inventions as it is for all others, -- engines, chemical compounds, processes and radio circuits. The situation is, and always has been, anomalous and very difficult of administration and adjudication. Patents for designs have been difficult to obtain and more difficult to sustain and many have felt it was not worth the effort and that the protection is illusory.

The other main problem in design patents has been the expense involved, which I would guess might average at least $100 each under present conditions, and the time it takes to get them issued. The Patent Office has greatly reduced the delay but it would still be a matter of several months in the average case. Contrast this with registering the copyright of a book. The process is so simple a clerk can do it, the cost is $4 and the time taken is about a week whereas to get a design patent a lawyer must be employed and months or years are required. Moreover, by law the protection by copyright begins with publication and you can register later.

Many designs, which require the time and talents of designers to produce but which cannot pass the uncertain test of statutory unobviousness therefore go without protection and this, taken with the uncertain validity of design patents, has

created a situation in which piracy of designs is rife. This, I believe, is discouraging to the development of good design in this country. I think it can also be demonstrated that this state of the law is not in the best interests of consumers or the national economy or conducive to business morality.

On the other hand, you will be told by representatives of the Copyright Office, the copyright law, which was not designed or intended to cover designs of carpets and wallpaper and coffee pots, contains a provision for "works or art" which has been discovered by those who find the design patent law unsatisfactory with the result that an ever-increasing number of useful articles embodying artistic designs have been able to get full 56 year copyright protection. In between this and the clear-cut field of patentable designs is what is probably still the bulk of the design field where encouragement for design by limited and reasonable protection is lacking and the law of the jungle prevails, creation in the design field being stifled by the knowledge that as soon as a newly created design proves to be a commercial success it will be copied -- or "knocked off," as it is called -- by those who were put to no pains or expense in its creation or market testing.

The main purpose of the bills before you is to create a more equitable, practical and workable law for the protection of ornamental designs than the inequitable conglomerate we now have, namely, inadequate patents, overprotective copyright and a great middle ground still inadequately provided for.

Perhaps this is an idealistic presentation, motivated solely by a desire to see the law improved, as in the case of the Patent Act of 1952. But representing no group other than the bar, having no special interest to promote other than the betterment of the legal system or any axe to grind, it is on that basis that I commend these bills to you, on behalf of the Coordinating Committee and, if I may, with my personal recommendation for enactment into law.

ATTACHMENT B

UNITED STATES COURT OF CUSTOMS
AND PATENT APPEALS

CHAMBERS OF
GILES S. RICH
JUDGE

20 April 1976

717 MADISON PLACE, N.W.
WASHINGTON, D.C. 20439
PHONE: 202-638-6743

Honorable Robert W. Kastenmeier
Chairman, Subcommittee on Courts,
Civil Liberties, and the
Administration of Justice
House Committee on the Judiciary
Washington, D. C.

Re: Copyright Revision - H.R. 2223

Dear Mr. Kastenmeier:

I am writing in my private capacity in support of the Copyright Revision Bill, HR 2223, more particularly Title II thereof pertaining to the protection of ornamental designs for useful objects.

My purpose is to shed a little historical perspective on Title II and to emphasize its logical place in the overall legislative plan for the protection of "intellectual property," which encompasses matters within the contemplation of Article I, section 8, clause 8 of the Constitution -- patents for the "discoveries" of inventors and copyrights for the "writings" of authors. I propose to be brief. It is not my intent to write a treatise or to discuss legal or historical details. Should you desire more detail, I shall be pleased to produce it.

I speak from firsthand knowledge of the origins of Title II as former chairman of a so-called Coordinating Committee of the National Council of Patent Law Associations (NCPLA) which drafted the original bill -- and subsequent bills -- which ultimately became Title II of the general copyright revision. That drafting came about in the following manner.

Our present patent statute, the Patent Act of 1952, Title 35 of the United States Code (a good law which should not be "reformed" or "revised" out of existence), was written by a "Coordinating Committee" of NCPLA in the period 1950-52. (See "Congressional Intent - Or Who Wrote the Patent Act of 1952," by Giles S. Rich, Patent Procurement and Exploitation, BNA Inc. 1963.) I was a member of a small drafting committee thereof. As you know, the present statute expressly for the protection of ornamental designs is, and for over a century has been, a part of the Patent Act (35 USC Chapt. 16, §§171-73). Those who were faced with the task of revising and codifying the patent statutes in 1950 were well aware that design patents were a big problem for various reasons: the kind of protection given by the statute to inventions of the "utility" type (processes, machines, manufactures, compositions of matter -- see 35 USC 100-101) were not appropriate to ornamental designs; design patents were mostly not upheld by the courts and hence were not respected by competitors; good lawyers advised their clients against bothering with them and other lawyers misled clients into thinking they were obtaining real protection by design patents. Efforts had been made for generations prior to 1950 to devise more suitable protection -- usually as some form of "design copyright."

Faced with this situation, the drafters of the 1952 Patent Act, anxious to get on expeditiously with the project of updating and perfecting the main body of patent law, made a calculated decision to leave the design problem strictly alone and to carry forward in the new patent statute the design patent provisions just as they were, knowing that to tackle the design problem could only distract people from the main project at hand. Hence, today we still have the same design patent law we have always had, with all its faults.

After the enactment of the Patent Act of 1952, I was asked, in 1954, by the head of NCPLA, to be Chairman of a new Coordinating Committee to take on the bypassed design protection problem. I accepted the invitation, reconstituting the committee to bring in representatives of groups interested in design stimulation by more appropriate protection. A new drafting committee was appointed. Much work was done in the next two years. A bill on the same principles now contained in Title II was drafted. There was a wealth of material and expertise to draw on.

A most active and interested person in the project was the then Register of Copyrights, the late Arthur Fisher. His interest was due to increasing use of copyright law and the Copyright Office, partly as a result of the Supreme Court decision in Mazer v. Stein, 347 U.S. 201 (1954), to protect a variety of industrial, rather than literary and fine art works by copyright as "works of art" -- works he felt did not belong in his office and which should have some other and more appropriate form of protection. (The 28- to 56-year term of copyright protection was felt to be too long for ornamental designs of useful articles.) If such protection could be devised, he felt, the pressure on the Copyright Office to register useful articles as "works of art" because of their ornamentation would be relieved. In later revisions of the design bill, Mr. Fisher and three of his staff, all later to become Register, Abraham Kaminstein, George Cary, and Barbara Ringer, were very active. I personally worked with all of them on the design bill over several years.

After considerable Congressional activity, including hearings which have been reported, and the passage of some twenty years, the design bill ultimately has appropriately become Title II of the current Copyright Revision Bill.

Title II, due to the thorough study given to the

problem, public hearings, consideration of objections, and the considerable quantity of legal expertise brought to bear on it, is, in my opinion, the best solution to the problem of stimulating and appropriately protecting ornamental designs of useful articles that has even been devised. It takes care of the shortcomings of both the patent and copyright laws.

Twenty years of judging the patentability of designs under Title 35 USC has made me acutely aware of the inappropriateness of the standards of patentability under the patent law which must be applied in design cases. (See, as examples, In re Laverne, 356 F.2d 1003, 148 USPQ 674 (CCPA 1966); Hadco Products, Inc. v. Walter Kidde & Co., 462 F.2d 1265, 174 USPQ 358 (CA 3 1972); and Fields v. Schuyler, Comr. Pats., 472 F.2d 1304, 175 USPQ 514 (CA DC).)

Basic principles of copyright law are more appropriate to design protection, especially registration and protection only against copying, but with modification of the term to a much shorter period. It is therefore appropriate that design protection should be a part of the copyright statute but at the same time separated from it as a specially-tailored provision adapted to the problems peculiar to ornamental design, taking in all ornamental designs for useful articles, not merely "works of art." Thus, the statutes for the protection of intellectual property are rounded out in a logical fashion. (The thought has always been that with more appropriate protection available, the present design patent law can be left alone to die on the vine.)

I have not been active in connection with design protection legislation in recent years but I note with great interest that Title II is essentially what the design bill was in Arthur Fisher's day. This speaks well, I think, for the soundness of the original drafting.

I commend Title II, along with the much-needed general revision of the copyright law, to your subcommittee for favorable action.

Sincerely,

Giles S. Rich

NATIONAL COUNCIL OF PATENT LAW ASSOCIATIONS
802 NATIONAL PRESS BUILDING
WASHINGTON 4 D C

November 12, 1958

TO: Members of the Coordinating Committee on Designs
of the National Council of Patent Law Associations

RE: Design Protection Legislation

Gentlemen:

This letter is being sent only to the patent law association elements of the Coordinating Committee.

Since last May a new industry committee has come into being called the NATIONAL COMMITTEE FOR EFFECTIVE DESIGN LEGISLATION. Its Executive Secretary is Alan Latman and it has an office at 122 East 42nd St., New York 17, N. Y. He is sending out a letter similar to this one. A meeting of this new committee is going to be held in Washington on December 3rd, at the Willard Hotel, 2 P. M.

The Willis Bill, H.R. 8873, 85th Congress, which we wrote, died with that Congress. Hearings were not held on purpose, it being the desire of the committee to distribute the bill for study and comment with a view to introducing an improved bill in the new Congress which convenes January 7th.

The purpose of this letter is to ask you to SEND IN ANY CONCRETE SUGGESTIONS YOU NOW HAVE FOR IMPROVEMENT OF THE WILLIS BILL. Many groups have studied it and it is presumed that a certain number of concrete ideas have been evolved. The drafting committee desires to have the benefit of them in preparing a new bill for introduction.

It is requested that you send your suggestions to the undersigned at the U. S. Court of Customs and Patent Appeals, Washington 25, D.C. by December 1st, with a copy to Mr. Latman, supra. Of course, all suggestions will be welcome whenever received.

FOR THE COORDINATING COMMITTEE

Giles S. Rich

Giles S. Rich
Chairman

P. S. If you are no longer the interested party, please pass this letter on at once to the one who is.

Senator DECONCINI. Judge, thank you very much. It's nice to have that historical background and that original bill.

If I could just address a couple of questions. We have seen the testimony of the members of the second panel who are going to testify on behalf of the insurance industry. They raise the question in their statement that this legislation may overreach the constitutional purpose for granting intellectual property rights. Do you have an opinion as to the constitutionality of extending protection to industrial designs?

Judge RICH. I have an opinion which was formulated 30 years ago on the basis of a study made of that specific topic by Prof. Walter J. Derenberg of New York University Law School, the author of one of the leading textbooks in the intellectual property field in the old days. Derenberg is dead now, but at the time we first drafted this bill the same question arose in the minds of some people, and we submitted it to Professor Derenberg and he submitted it to a staff of law students. They came up with a very definite opinion that it certainly ought to be sustained as constitutional, either under the patent and copyright clause, article I, section 8, clause 8 of the Constitution; or, if not that, under the commerce clause, under which the trademark laws have been sustained.

Senator DECONCINI. You have no reason to believe that——

Judge RICH. I wouldn't worry about it. If I were a Congressman, I would go ahead and pass it and let the chips fall where they may.

Senator DECONCINI. We do that on occasion around here. [Laughter.]

Judge RICH. You do it all the time. [Laughter.]

Senator DECONCINI. Sometimes it's more than chips.

Judge RICH. My informed opinion, though I'm no constitutional law scholar, would be that the Supreme Court would certainly sustain it.

Senator DECONCINI. Thank you, Judge. That's helpful.

Judge RICH. Until they do, you wouldn't know whether it was constitutional or not.

Senator DECONCINI. You've stated as a lawyer and a judge that you'd like to see this country have a coherent body of law, at least as good as that which several other countries have. Can you give us, just quickly, a comment on the laws of some of these other countries what they have in place now, and how their systems are working?

Judge RICH. I'm afraid I can't because I haven't kept up with it. I just know in a vague sort of way that they exist in some countries, and I can't name them. I would refer you to your own introductory statement in the Congressional Record which mentions some of those countries.

Senator DECONCINI. Fine, Judge.

Let me ask you this, Judge. The second panel is going to ask that the bill include an exemption for replacement parts for automobiles. You see some of those items in front of you. I would like to hear your thoughts, if you have any, on having such an exemption in the legislation, and if this ever arose during your efforts to enact legislation some time ago.

Judge RICH. Well, throughout the years that question came up time after time, could we leave this group out or that group out. I

remember an occasion of quite a few years back when Speaker McCormack of the House said, I can get your bill passed for you if you'll except the ladies' undergarment manufacturers in New England because that's where I come from. And I noticed that not only are ladies undergarments expressly excluded in this bill of yours, but all clothing; all clothing, outergarments and undergarments, and I think that's one example of what has happened through the years when I haven't been paying much attention to this.

Of course, we all took the attitude that once you start this kind of thing going, where are you going to stop? Every group that doesn't like the bill will ask to be excepted. However, we have had a very good Plant Patent Act for many years, and still have it, which eliminates potatoes from the statutory provision by saying "other than a tuberpropagated plant." That's a part of the patent law today (35 U.S.C. §161), and I've always understood that's because the potato growers didn't want any kind of plant patents on potatoes.

I would like to hear what the auto parts people have to say factually, and I would particularly like to know what they mean by auto parts. The auto parts business, of course, I believe is an exceedingly profitable part of the auto manufacturing business, but I understand that the opposition here about parts is coming from insurance people who don't want to cough up any more money for damaged car repair than they have to, and I'd like to know what parts they're talking about. I would like to know what the chances of the automobile people trying to register the shape of a fender are. Maybe the auto people aren't interested in registering fenders, for example, which is the major thing that gets smashed up, except for tail lights and headlights and bumpers. What does it amount to?

And my last question would be—I've just been thinking about this since last Monday and not before; this is a new phase of this legislation—how much more is the insurance company going to have to pay for the plastic lens of the smashed tail light if it comes from the original manufacturer instead of somebody in the copying business?

And another question that pops into my mind is, what industry are we protecting? Are we protecting American manufacturers or manufacturers of replacement parts in Taiwan and Korea?

Senator DECONCINI. You raised the question that's going to be addressed, Judge.

Let me yield to my colleague, Senator Hatch, if he has any questions.

Senator HATCH. Judge, let me just ask one question. You mentioned that one reason that current patent laws do not offer sufficient protection for ornamental design is that it takes 2 years to process patent applications. I'd just like to ask you, why is it taking 2 years to test design patents for novelty and unobviousness?

Judge RICH. Well, because of the examination system as compared to the Copyright Office's registration system. To get a copyright registration, all you have to do is file your papers, have some clerk look to see if they are in order and make sure they don't relate to a subject matter that's not subject to copyright at all—I mean, if you want to copyright a book you submit the book. And

you name it and you give its title and you pay a small fee. I've forgotten what it is now. I think it was $6 a few years ago.

In the Patent Office, you file an application and the patent must meet the requirements of novelty and utility. Well, it has to take its place in line until some skilled engineering school graduate examiner can get around to looking through all the prior art that he has available—classified, as you know, in the Patent Office—to see whether he can find anything like it or anything the same, and then make a judgment as to whether it is unobvious in view of the prior art that he has found. And this takes a while, and the chances are very high that his first "office action," so-called, will be a rejection, after which the applicant has another few months to respond—the statute says 6; the office cuts it down to 3—and then there will be another action. And the Patent Office has been struggling for years to cut down the time of examination, which has run very high at times, maybe 5 years. They have a goal of 18 months by 1988, I think it is, something like that, and that's why I said in my prepared statement that the average time might be about 2 years, by which time many designs have lost their fashion appeal and they're gone.

With a copyright-type of registration, it can be all over in a couple of weeks, perhaps.

Senator HATCH. Sure.

Now, you indicated that an exemption depends upon the facts. What are the facts, for instance, that would support an exemption in the garment industry?

Judge RICH. Well, I don't know of any facts to support it except that that group doesn't like it and thinks they're better off without it. It's sort of——

Senator HATCH. So it's a political judgment, then?

Judge RICH [continuing]. Pro and con; attitude changes through time. When I was promoting this legislation before I was a judge, the main opposition was coming from the automobile industry, the manufacturers. Now I see they're here to support the bill.

Personally, to get the thing rolling and to get something better for the great bulk of people who can use this design law, I would rather see an exemption or two to get on with it.

Senator HATCH. OK. Thank you.

Senator DECONCINI. The Senator from Iowa?

Senator GRASSLEY. Judge Rich, I want your comments, please, on the 10-year term of protection, whether or not that's adequate, whether or not you think it ought to be shorter or lengthened.

Judge RICH. All time periods in protection are arbitrary. We started out with a 5-year term back in 1957, with a 5-year renewal. I'm inclined to think that it makes more sense to have a fixed term with no renewal, and I think 10 is a pretty good compromise. The patent term is 17; the copyright is life of the author plus 50 or 75 years. I think 10 is about right.

Senator GRASSLEY. OK, thank you.

Mr. Chairman, I have no further questions.

Senator DECONCINI. Thank you, Senator Grassley.

Judge Rich, thank you very much.

Judge RICH. I brought another present for you.

Senator DECONCINI. Good. I need presents. I don't want those fenders though.

Judge RICH. In the early days of this legislation, the Copyright Office was actively supporting it—and I might say that I have recalled five successive Copyright Registers who have backed this bill; they began with Arthur Fisher and include his successors, Abe Kamenstein, George Cary, Barbara Ringer, and David Ladd, and where the present Register stands I haven't found out yet—at that time Arthur Fisher said to me, "look, I shouldn't be pushing the legislation, and now that you're a judge, you shouldn't be pushing it; we ought to organize a committee." So we created, in New York City, the NCEDL, the National Committee for Effective Design Legislation, and we put in as executive director a man named Alan Latman, a great scholar who was at the time working for Arthur Fisher. Alan Latman became a professor at NYU Law School; he was the author of two successive books on copyrights. At the beginning of NCEDL he wrote a pamphlet, Protection for Designs, which gave all of the best arguments that we could think of at that time, and I have an extra copy. It came out in February 1959, and I'd like to leave it with you.

Senator DECONCINI. Thank you. Thank you, Judge. We're going to have a historic library here if you'll just stay there a little bit longer.

Judge RICH. Well, I have two filing cabinets full that I would be glad to get rid of. [Laughter.]

Senator DECONCINI. Thank you. Thank you, Judge Rich, very much; I appreciate your being here.

Judge RICH. Thank you.

Senator DECONCINI. Our first panel is going to be Mr. Cooper Woodring, president, Better Mousetraps, Inc.; Mr. William Thompson, patent counsel, Caterpillar, Inc.; Mr. Joseph Richardson III, Richardson Brothers Co.; and Mr. Gary Newton, chief patent counsel, Chrysler Corp. If you would all come forward.

Gentlemen, your full statements will appear in the record, if you would like to summarize them for me.

Mr. Woodring, would you begin?

STATEMENT OF COOPER C. WOODRING, PRESIDENT, BETTER MOUSETRAPS, INC., PLANDOME, NY, AND CHAIRMAN OF THE BOARD, INDUSTRIAL DESIGNERS SOCIETY OF AMERICA

Mr. WOODRING. Thank you.

In 1871, Ralph Waldo Emerson said, "If a man maketh a better mousetrap, the world will beat a path to his door." For almost 100 years we have assumed that this meant that the world was eager to buy an improved product. Recently, we find that many are in fact beating a path to plagiarize the better idea.

For years, America has prided herself on the benefits of Yankee ingenuity. We have been enamored with the values of competition and innovation in American industry; yet we face a situation wherein original design in the United States is almost defenseless against copying. Japan, West Germany, Korea, and Taiwan have been diligent in providing protection for their original designs while still free to copy ours. The lack of low-cost, timely and easy

to obtain design protection is reducing the quality of American products, thereby making them less competitive in the world market.

On behalf of the Industrial Designers Society of America let me state up front that we strongly support passage of this legislation to provide protection of industrial designs; and I, as chairman of that organization, welcome the opportunity to testify before this subcommittee.

The Industrial Designers Society of America, IDSA, is the national nonprofit organization of professionals who design consumer products, equipment, instruments, furniture, and transportation.

To create innovate products and services which satisfy both clients and consumers, industrial designers work with manufacturers to specify appropriate and cost-effective materials and production processes. They apply human factors considerations to ensure comfort, safety and ease of use. They determine the appropriate form, color, and texture that will appeal to the targeted consumer segment.

There are approximately 6,000 industrial designers practicing in the United States today, both as consultants and within corporations. It is estimated that the average individual designer annually affects over $100 million of the U.S. gross national product, the highest impact of any design professional and 50 times the economic impact of the average architect.

The Gallup Organization completed a study in 1985 of how U.S. business uses industrial design and what it considers to be industrial design's major contribution. A startling highlight from the Gallup study is that senior business executives rate industrial design as 60 percent responsible for the success of any new product; 23 percent rated industrial design's contribution at 80 percent or more.

However, this should not be surprising when given the essence of the industrial designer's contribution, for it is the industrial designer who is responsible for the attributes of the product which you like best—the elegant VCR which you can operate without having to study a manual for 2 hours; the handsome office chair that doesn't cause a backache, and the antifreeze bottle which funnels the liquid into the radiator, not onto the engine.

The United States faces a serious problem wherein the appearance of new, innovative American products are being copied with impunity. This undermines industrial design innovation and rewards the purveyors of imitation goods. Its effect has been to hamper American competitiveness in the global marketplace, thereby reducing American jobs.

Currently, the appearance of useful objects—including most features integrally related to the product function—cannot be copyrighted in the United States, unlike other countries which provide protection for original industrial designs. Here, the only protection available for the design of a useful product is a design patent, which takes a minimum of 14 months before it affords protection. By then the copiers, usually offshore, have already done their damage and achieved their market share. The cost of prosecuting a design patent becomes economically unrealistic in most cases.

As technological advances diminish product life cycles, legislation that will improve and speed up the protection process is vital. If the design creativity and innovation of individuals who are 60 percent responsible for a new product's success and who on average each affect over $100 million of our GNP are important to the competitive health of American trade, shouldn't we provide effective protection for their intellectual property?

IDSA strongly urges passage of this industrial design protection legislation for two reasons.

One, the consumers will be protected. The design and product development process is a long and expensive one in which the product's appearance integrates technology, function, user considerations and consumer appeal. It is certainly debilitating both to the company and to the designer to see a ripoff that captures only the superficial appearance, but these ripoffs can also cheat consumers who think they are buying well-conceived products only to discover that they have purchased less functional and often unsafe merchandise.

No. 2, U.S. products will be more competitive. The current U.S. design patent process takes so long, and without a retroactive basis to receive payment, that it is currently estimated that Japan protects 10 times and West Germany 30 times as many industrial designs as does the United States. Each of those countries, by the way, has less industrial designers than does this country. By providing immediate protection when one shows a new design in public, this legislation will make it possible to prosecute infringers within a reasonable time.

All consumers, whether domestic or international, want to buy products which are well designed; that is, aesthetically pleasing, functional, safe, and easy to use. No one can be induced to buy what they consider to be a poorly designed product. Passage of this legislation will make it much more likely in the global marketplace that it will be an American product which is being bought.

We commend Senator DeConcini for his foresight in holding these hearings and pledge our cooperation to the subcommittee in any way which would further the goals and objectives of a fair and effective U.S. trade policy.

[The prepared statement of Mr. Woodring follows:]

Testimony of Cooper C. Woodring, FIDSA
Chairman of the Board
Industrial Designers Society of America
March 26, 1987

In 1871 Ralph Waldo Emerson said: "If a man make a better mousetrap the world will beat a path to his door." For most of the past 100 years we have assumed this meant that the world was eager to buy an improved product. In 1987 we find that many are in fact beating a path to plagiarize it.

For years America has prided itself on the benefits of Yankee ingenuity. We have been enamored of the values of competition and innovation in American industry. Yet, we face a situation wherein original design in the United States is almost defenseless against copying. Other countries such as Japan, West Germany, Korea and Taiwan have been diligent in providing protection for original designs. Here, the lack of low-cost, timely and easy to obtain copyright protection is reducing the quality of American products, thereby making them less competitive in world markets.

On behalf of the officers and members of the Industrial Designers Society of America (IDSA) let me state upfront that we strongly support passage of legislation to provide for protection of industrial designs, and welcome the opportunity to testify before this Subcommittee.

IDSA is the national nonprofit organization of professionals who design products, equipment, instruments, furniture and transportation.

First founded during the 1930s, IDSA currently consists of 1900 professionals in 24 chapters nationwide. The Society's major purposes are:

* To foster high standards of professional integrity;

* To create and make available a body of professional literature;

* To recognize outstanding design achievement;

* To assist in the development of quality educational programs in industrial design; and

* To encourage the development of innovative and responsible products.

IDSA establishes curriculum standards for baccalaureate degree programs in industrial design; sets ethical standards for professional practice; publishes a professional journal, monthly newsletter, annual directory and statistical profiles; and conducts conferences, awards programs and public information programs.

INDUSTRIAL DESIGN PROFESSION

To create innovative products and services which satisfy both clients and customers, industrial designers:

* Work with manufacturing to select appropriate, cost-efficient materials and production processes;

* Apply human factors considerations to ensure comfort, safety and ease of use; and

* Determine the appropriate form, color and texture that will appeal to the customer.

There are approximately 6250 industrial designers practicing throughout the United States today as

consultants and within corporations. It is estimated that the average industrial designer annually affects over $100 million of the U.S. Gross National Product--the highest impact of any design professional.

INDUSTRIAL DESIGN'S ROLE IN BUSINESS AND TRADE

The Gallup Organization completed a study in 1985 of how U.S. business uses industrial design and what it considers to be industrial design's contribution.

A startling highlight from the Gallup study is that **senior business executives rate industrial design as 60 percent responsible for the success of a product.** Twenty-three percent (mostly from small, fast-growing companies) rated industrial design's contribution at 80 percent or better.

However, this should not be surprising given the essence of the industrial designer's contribution. For it is the industrial designer who is responsible for those features of a product which you like best: the elegant VCR which you can operate without having to study a manual for two days; the handsome office chair which doesn't cause you a backache; and the antifreeze bottle which funnels the liquid into the radiator and not onto the engine.

PROBLEM

The United States faces a serious problem wherein the appearance of new, innovative American products are being copied with impunity. This undermines industrial design innovation and rewards the purveyors of cheap, imitation goods. Its effect has been to hamper American competitiveness in the global marketplace, thereby reducing American jobs.

Currently, the appearance of useful articles (including most features integrally related to product function) cannot be copyrighted in the United States, unlike West Germany, Japan, Korea and others which provide copyright protection for original industrial designs. Here, the only protection available for the design of a useful product is a design patent, but a design patent takes a minimum of 14 months before it affords protection. By then, the copiers (usually offshore) have already done their damage and achieved their market share. The cost of prosecuting a design patent becomes economically unrealistic in most cases.

As technological advances diminish product life cycles, legislation that will improve and speed up the protection process is vital. If the design creativity and innovation of individuals who are 60% responsible for a product's success and who on average affect over $100 million of our GNP are important to the competitive health of American trade, shouldn't we provide effective protection against pirating?

INDUSTRIAL DESIGN PROTECTION LEGISLATION

The Industrial Designers Society of America (IDSA) strongly urges passage of this industrial design protection legislation for two main reasons.

1. Consumers Will Be Protected

The design and product development process is a long one in which the product's appearance integrates technology, function, user considerations and appeal. It is certainly debilitating to both a company and its designers to see a rip-off that captures only the superficiality of style. But, these rip-offs also cheat consumers who think they are buying a

well-conceived design only to discover they have purchased less functional and often unsafe merchandise.

2. U.S. Products Will Be More Competitive

The current U.S. design patent process takes so long (and without a retroactive basis to receive payment) that it is currently estimated that Japan protects 10 times and West Germany 30 times as many industrial designs as does the United States. By providing immediate protection when one shows a new design in public, this legislation will make it possible to prosecute infringements within a reasonable time. This will encourage more companies to develop well-designed products without the fear that their investment in design will be undercut.

The low cost and ease of filing copyright protection under the proposed legislation will also encourage more small entrepreneurs to invest in original design. Better designed U.S. products mean more successful American products, a reduction in the U.S. trade deficit, and more jobs.

CONCLUSION

All consumers, whether domestic or international, want to buy products which are well-designed, i.e. aesthetically appealing, functional, safe and easy to use. No one can be induced to buy what they consider to be a poorly designed product. Passage of this legislation will make it much more likely that in the global marketplace it will be an American product which is being bought.

We commend Senator DeConcini for his foresight in holding these hearings, and pledge our cooperation to the Subcommittee in any way which would further the goals and objectives of an effective U.S. trade policy.

Senator DECONCINI. Thank you, Mr. Woodring.
Mr. Thompson?

STATEMENT OF WILLIAM S. THOMPSON, PATENT COUNSEL, CATERPILLAR, INC., PEORIA, IL, REPRESENTING THE INDUSTRIAL DESIGN COALITION

Mr. THOMPSON. Mr. Chairman, I am William Thompson, patent counsel of Caterpillar, Inc., and on behalf of my company and the Industrial Design Coalition, I am pleased to testify this afternoon in support of S. 791, the Industrial Innovation and Technology Act of 1987.

The Industrial Design Coalition is an ad hoc group of companies and trade associations spanning a wide range of consumer products and capital goods. This diverse group of over 30 companies and trade associations is concerned about the growth of competition of look-alike products and the lack of meaningful intellectual property protection to protect designs. It was formed in 1985 to seek congressional passage of industrial design legislation like S. 791.

Today, in this highly competitive economic environment, product designs are an important marketing tool. The industrial designer in his attempts to integrate form and function offers the consumer the choice of a product that not only looks attractive, but also functions properly to meet specific needs. This often requires the collective efforts of research, engineering, and marketing disciplines at considerable development cost. The end result—a useful article with a distinctive shape—often has a high commercial value and is worthy of protection from blatant copying.

Mr. Chairman, let me focus on Caterpillar, Inc., and our interest in this legislation.

Headquartered in Peoria, IL, Caterpillar, Inc., is a multinational company which designs, manufactures, and markets a wide array of earth-moving, construction, material handling and farm machinery, as well as diesel and turbine engines. The company employs 54,000 men and women around the world, 36,000 in the United States.

Aftermarket parts are a major segment of the worldwide construction industry sales and profits, representing between $10 billion and $15 billion annually. Replacement parts for machinery of the scale manufactured by Caterpillar are necessarily expensive. A large bulldozer which retails for $350,000 will consume about $250,000 in parts over its lifetime.

Since parts breakage or failure means expensive, nonproductive downtime for these commercial machines, Caterpillar has developed an extensive computerized network linking our 23 warehouses to assure around-the-clock availability of over 450,000 parts. Minimizing downtime allows our customers to operate their businesses at lower costs; in fact, this is so important that we deliver parts anywhere in the world within 48 hours.

The worldwide network of 23 warehouses enables us to maintain our leadership position in construction machinery, sales, and service.

In recent years, we have experienced a growing influx of look-alike parts, competing head-to-head with genuine Caterpillar parts.

This resemblance, we believe, is not accidental; it's a purposeful effort to confuse the customer or the repair shop about the parts' origin and leave the impression that the look-alike and the Caterpillar parts are indeed the same.

To illustrate what is happening in the parts business today, let me point to two examples. The first is a set of photographs that compare a Caterpillar bucket tip and corner guard adapter with a product manufactured by a competitor. The corner guard fits at this location [indicating] on a bucket on the vehicle. Let me point out that several designs could have been chosen, but Caterpillar has determined that this particular shape was the best in blending form and function. Notice that the competitor's design is the same as Caterpillar's, yet the manufacturing process is different. For the consumer, such differences will be keyed to product life and performance and to the integrity of the overall product.

In the case of the fuel injection nozzles, we have examples of both counterfeit and look-alike problems. First, a genuine Caterpillar nozzle; there is a distinctive indentation in the casing caused by the manufacturing process. Compare this with a smooth German competitor's nozzle, which can be successfully used in the same application. Again, several designs can be used without affecting function, and I might point out that we have no objection to the use of this different-looking nozzle.

Now let's look at an example of a counterfeit nozzle in a counterfeit package. No doubt the Caterpillar trademark was infringed, and we took successful legal action based on trademark law in this particular case.

Senator DECONCINI. Where was that made?

Mr. THOMPSON. That was in Los Angeles.

Next, a differently designed fuel nozzle packaged in a white cardboard box; no problem so far. But when we open the box we find that the manufacturer has wrapped the nozzle in a counterfeit polybag, creating a trademark infringement actionable under current law.

The last example shows a nozzle identical to Caterpillar's, having the indentation, in a generic polybag; not having a trademark usage, but a factual statement. Under current intellectual property rights, the manufacturer is free to sell this nozzle even though it is an exact copy of the shape of the Caterpillar part.

Again, these parts look exactly the same, but their manufacturing processes are different. The competitor manufacturer intentionally added the outside indentation after the initial machining process in order to conform his nozzle shape to Caterpillar's.

It is not uncommon, as in the example used by the computer chip industry in successfully arguing for design protection for mask works, for a copyist to even duplicate errors.

Mr. Chairman, the coalition and Caterpillar believe that S. 791 is a balanced approach to addressing the problems of our current design patent system. The scope of legislation is correctly narrow, requiring copying of the design to be actionable. The requirement for filing a registration and the issuance of a design certificate is desirable to let the public know what is protected and what is not.

The sui generis form of copyright protection is much better suited to protecting industrial designs than our existing patent

system. It clarifies the confusing issues of current case law while balancing the legitimate rights of competitors and consumers.

The members of the Industrial Design Coalition believe it is time for the United States to acknowledge that our patent laws in this field are not as good as the rest of the industrial world. This legislation is a needed update of our intellectual property rights and is fully compatible with our national goal of increased competitiveness in an economically interdependent world.

Thank you, Mr. Chairman, for the opportunity to appear.

[Submissions of Mr. Thompson follow:]

PREPARED STATEMENT OF WILLIAM S. THOMPSON

PATENT COUNSEL, CATERPILLAR, INC.

SUMMARY

Caterpillar Inc. joins The Industrial Design Coalition in support of S. 791, "The Industrial Innovation and Technology Act of 1987."

The Industrial Design Coalition is an Ad Hoc group of companies and trade associations spanning a wide range of consumer products and capital goods. It was formed in 1985 to seek Congressional passage of industrial design protection legislation like S. 791.

Product designs are an important marketing tool, requiring the collective efforts of research, engineering and marketing disciplines at considerable development cost. The result--a useful article with a distinctive shape--often has a high commercial value and should be worthy of protection from blatant copying.

While there is some overlap among existing intellectual property rights, neither copyright nor trademark protection is intended to protect the works of the industrial designer who integrates form and function to achieve an overall design. And unfair competition "causes of action" offer only limited remedial action.

Caterpillar is faced with growing competition from "look-alike" parts manufacturers and distributors. Aftermarket parts represent a major segment of overall construction industry sales and profits. The worldwide parts business for construction machinery is between $10-$15 billion annually.

We believe the manufacture of look-alike parts is a purposeful effort to confuse the customer (or repair shop) about the parts origin and leave the impression that the look-alikes are the same as Caterpillar parts.

(Caterpillar used three illustrations of look-alike parts: bucket tips, edge adapters and fuel injection nozzles. Even though these parts could be designed in several ways to work, in each case the competitor parts look identical to Caterpillar's.)

S.791 is a balanced approach to addressing the problems of the current design patent system. The scope is correctly narrow, requiring copying of the design to be actionable. Filing of a registration and issuance of a design certificate is desirable to let the public know which designs are protected and which are not.

The copyright form of protection in S. 791 is much better suited to industrial designs and will clarify the confusion of current case law while balancing the legitimate rights of competitors and consumers.

It's time to update U.S. intellectual property laws to the level of other industrial nations. S.791 is fully consistent with our national goal of increased competitiveness in an economically interdependent world.

* * *

Mr. Chairman, I am William S. Thompson, Patent Counsel of Caterpillar, Inc. On behalf of my company and the Industrial Design Coalition, I am pleased to testify this afternoon in support of S.791, "The Industrial Innovation and Technology Act of 1987."

The Industrial Design Coalition is an Ad Hoc group of companies and trade associations spanning a wide range of consumer products and

capital goods. Among its members are manufacturers of construction equipment, sporting goods, luggage and leather goods and hardware. Associations representing furniture manufacturers, automotive and truck manufacturers and major design firms are also members. Marine and boating interests are represented, as is the typeface industry.

This diverse group of over 30 companies and trade associations is concerned about the growth of competition from look-alike products and the lack of meaningful intellectual property protection for product designs. It was formed in 1985 to seek congressional passage of industrial design legislation like S. 791.

Today, in this highly competitive economic environment, product designs are an important marketing tool. The industrial designer in his attempts to integrate form and function, offers the consumer the choice of a product that not only looks attractive but also functions properly to meet specific needs. This often requires the collective efforts of research, engineering and marketing disciplines at considerable development cost. The end result--a useful article with a distinctive shape--often has a high commercial value and should be worthy of protection from blatant copying.

Industrial design protection is somewhat confused at the outset because patents, trademarks, copyrights and unfair competition laws all impinge to various degrees. However, it is the design patent system which was established in the U.S. to provide the principal protection for industrial designs. As indicated in Figure 1, the large circle illustrates theoretically protectable industrial designs. The field represented by the bull's eye circle are those designs that are effectively protected by the design patent system.

Trademarks are reflected as a slight overlap of a system basically intended for a different purpose. As is well known, certain distinctive containers such as the Mogan David wine bottle, have been held to have acquired secondary meaning and to be capable of protection as a trademark. The container was distinctive and had developed strong secondary meaning. Others dealing with containers have sought to

FIGURE 1

emulate this example since if trademark protection is achieved, one has indefinite protection of the design in question. However, the road is not easy since a new container inherently conveys no information as to its source. And secondary meaning must be established by vigorous advertising, usually quite beyond the means of the small or independent designer. The product is vulnerable to copying during its early life, and even then success is elusive since the slightest degree of functionality will disqualify the design. The degree of functionality used in trademark cases is the most pervasive; i.e., virtually the slightest degree of functionality will disqualify a design feature as being protectable as a trademark.

Basic copyright (i.e., Title 17 Chapters 1-8) also overlaps to a slight degree with the industrial design field. The high water mark was the holding by the Supreme Court in Mazer, et al v. Stein, et al 100 USPQ 325 (decision March 8, 1954). A statuette comprised of male and female dancing figures was subject to copyright protection and was incorporated as a subpart of a utilitarian device, namely the base of a lamp. The court held that mere use of an otherwise artistic and protectable item in a utilitarian article did not negate copyright protection for the statuette. This has evolved into the concept that artistic designs (sculptures, pictorial works and the like) which are conceptually separate from the utilitarian article remain protectable as copyrights.

Existing copyright and trademark protection are not intended to protect the works of the industrial designer integrating form and function to achieve an overall design effect. He would be insulted at the suggestion that he ought to paste a reproduction of a protected work of art on his design to make it salable. On the other hand, copying techniques are so advanced that if his design is in fact marketable, it may very well be copied before he has established any secondary meaning for trademark purposes. And in any event the integration of form and function would nearly always preclude trademark protection on functionality grounds.

Unfair competition causes of action are sometimes helpful but the range is very small in view of the permissible activity of reverse engineering. One only normally succeeds with the strongest of equities involving usually both outright appropriation and palming off or trading on the reputation of another. An interesting case in this connection is Interpart Corp. v. Imos Italia, et al, 228 USPQ 124 (Federal Circuit 1985.) In this case, the CAFC upheld the 9th Circuit decision denying relief under a Lanham Act Section 43(a) action. The courts concluded that even if nonfunctionality, secondary meaning and likelihood of confusion were established where the copier identified the products as his own by affixing a mylar label with his name, he was not competing unfairly.

Mr. Chairman, since you will be hearing from several other companies

represented in The Industrial Design Coalition, let me focus my remaining remarks on Caterpillar Inc. and our interest in this legislation.

Headquartered in Peoria, Illinois, Caterpillar Inc. is a multinational company which designs, manufactures, and markets a wide array of earth-moving, construction, material handling equipment, as well as farm machinery and diesel and turbine engines.

Caterpillar products are manufactured in 15 U.S. and 15 non-U.S. plants. Our product line has doubled since 1981, and the company now offers over 300 models of equipment.

Caterpillar employs 54,000 men and women around the world -- 36,000 in the United States.

Aftermarket parts represent a major segment of overall construction industry sales and profits. Industry sources estimate that the worldwide parts business for construction machinery is between $10-$15 billion annually, with 40 percent in the U.S.

Replacement parts for machinery of the scale manufactured by Caterpillar are necessarily expensive. For example, a large track-type tractor (bulldozer) which retails for about $350,000 will consume about $250,000 in parts over its lifetime.

Since parts breakage or failure means expensive, nonproductive "downtime" for these commercial machines, Caterpillar has developed an extensive, computerized distribution network to assure around-the-clock availability of over 450,000 parts. Minimizing downtime allows our customers to operate their businesses at lower costs. In fact, this is such an important aspect of our equipment sales that we deliver parts anywhere in the world within 48 hours.

This worldwide parts network of 23 warehouses has enabled us to maintain our leadership position in construction machinery sales and service. Unlike many of our parts competitors who can pick and choose which high

volume/high profit parts to sell, our customers expect us to provide the full line of replacement parts for all our machines and engines.

In recent years, Caterpillar has experienced a growing influx of look-alike parts, usually of inferior quality, competing head-to-head with genuine Caterpillar parts. This resemblance, we believe is not accidental, but is a purposeful effort to confuse the customer (or repair shop) about the parts origin and leave the impression that the look alike and Caterpillar parts are indeed the same.

To illustrate what is happening in the parts business today, let me direct your attention to the two Caterpillar exhibits. The first item compares a Caterpillar bucket tip and corner guard adapter with product manufactured by a competitor. Let me point out that these bucket tips and corner guard adapters can be designed several ways to successfully perform their work. However, Caterpillar, through its Research and Development program, has determined that this particular shape was the best blending of form and function.

Notice that in both cases, the competitor's design is the same as Caterpillar's, yet the manufacturing process is different. Caterpillar's parts are forged while the competitors are cast and therefore subject to quality defects. For the consumer, such differences will be key to product life and performance. The integrity of our overall product is continually judged by the quality of parts such as these.

In the case of the fuel injection nozzles, we have both counterfeit and look-alike problems. First let's look at a genuine Caterpillar nozzle. Notice the distinctive indentation in the casing caused by the manufacturing process. Compare this with the smooth surfaced German competitor's part which can be successfully used in the same application. The point is that several designs will work without affecting the part's function. We do not object to alternates that can be clearly differentiated visually from ours.

Now let's look at an example of a counterfeit nozzle in counterfeit

packaging. No doubt here that the Caterpillar trademark was infringed and we took successful legal action against this company.

Next is a differently designed fuel nozzle packaged in a white cardboard box. No problems so far. But when we open the box we notice that the manufacturer has wrapped the nozzle in a counterfeit polybag, thus creating a trademark infringement actionable under current law.

The last nozzle example shows an identically shaped nozzle in a "generic" polybag. Under current intellectual property rights, the manufacturer is free to sell this nozzle even though it is an exact copy of the shape of the Caterpillar part.

As mentioned previously, these parts look exactly the same but their manufacturing processes are different. The look-alike manufacturer has intentionally added the outside indentation after the initial machining process in order for the nozzle shape to conform to Caterpillar's.

This reminds me of the example used by the Computer Chip industry, in successfully arguing for copyright-like design protection for its mask works, where the copyist even duplicated errors on the mask.

Conclusion:

Mr. Chairman, the Industrial Design Coalition and Caterpillar Inc. believe S. 791 is a balanced approach to addressing the problems of our current design patent system. The scope of the legislation is correctly narrow, requiring copying of the design to be actionable. The requirement for filing of a registration and the subsequent issuance of a design certificate is certainly desirable since the public would know which designs are protected and which are not.

This sui generis form of copyright protection is much better suited to protecting industrial designs than our existing patent system. It will certainly clarify the confusion encountered in current case law, while balancing the legitimate rights of competitors and consumers.

We believe it is time for the United States to acknowledge that its patent laws are not as good as the rest of the industrial world. It is time to update and modernize these laws. This legislation is a needed addition to our intellectual property rights and is fully compatible with our national goal of increased competitiveness in an economically interdependent world.

Thank you, Mr. Chairman, for this opportunity to appear before your subcommittee. I will be pleased to answer any question you may have.

Statement by WS Thompson, Patent Counsel, Caterpillar Inc. before the Intellectual Property Working Group, Economic Policy Council, Washington, DC.. April 1, 1987

On behalf of Caterpillar and the Industrial Design Coalition, I am pleased to be here this afternoon to discuss with you the merits of industrial design protection and to urge the Working Group to support such legislation.

The Industrial Design Coalition is a group of over 30 companies and trade associations spanning a wide range of consumer products and capital goods. Among its members are manufacturers of construction equipment, sporting goods, luggage and leather goods and hardware. Associations representing furniture manufacturers, automotive and truck manufacturers and major design firms are also members. Marine and boating interests are represented, as is the typeface industry.

This group was formed in 1985 in response to a growing concern over competition from look-alike products and the lack of meaningful intellectual property protection for product designs. Our efforts are based on the successful campaign of the computer chip manufacturers who patterned their bill around existing industrial design protection.

Today, in this highly competitive economic environment, product designs are an important marketing tool. It has been estimated that the average industrial designer annually affects over $100 million of the U.S. Gross National Product. A 1985 Gallup study showed that business executives rated designs 60% responsible for product success.

The industrial designer in his attempts to integrate form and function, offers the consumer the choice of a product that not only looks attractive but also functions properly to meet specific needs. This often requires the collective efforts of research, engineering and marketing disciplines at considerable development cost. The end result -- a useful article with a distinctive shape -- often has a high commercial value and should be worthy of protection from blatant copying.

Industrial design protection is somewhat confused at the outset because patents, trademarks, copyrights and unfair competition laws all impinge to various degrees. However, it is the design patent system which was established in the U.S. to provide the principal protection for industrial designs. But the present system is not working.

As is well know, certain distinctive containers such as the Mogan David wine bottle, have been held to have acquired secondary meaning and to be capable of protection as a trademark. Others have sought to emulate this example since if trademark protection is achieved, one has indefinite protection of a design. However, the road is not easy. Secondary meaning must be established by vigorous advertising, usually quite beyond the means of the small or independent designer. The product is vulnerable to copying during its early life, and even then success is elusive since the slightest degree of functionality will disqualify the design.

Basic copyright (i.e., Title 17 Chapters 1-8) also overlaps to a slight degree with the industrial design field. The Supreme Court in Mazer, et al v. Stein, et al 100 USPQ 325 (decision March 8, 1954) held that mere use of an otherwise artistic and protectable item in a utilitarian article -- i.e., incorporating a statuette into a lamp base -- did not

negate copyright protection for the statuette. This has evolved into the concept that artistic designs (sculptures, pictorial works and the like) which are conceptually separate from the utilitarian article remain protectable as copyrights.

Unfair competition causes of action are sometimes helpful but the range is very small. One normally succeeds only with the strongest of equities involving usually both outright appropriation and palming off or trading on the reputation of another. An interesting case n this connection is Interpart Corp. v. Imos Italia, et al, 228 USPQ 124 (Fedral Circuit 1985). In this case, the court denied relief under a Lanham Act Section 43(a) action. The court concluded that even though nonfunctionality, secondary meaning and likelihood of confusion were established, where the copier identified the products as his own by affixing mylar label with his name, he was not competing unfairly.

There are those who would argue that the scope of this legislation is too broad. We believe, however, that the bill carefully balances the need to encourage competition with the equally legitimate right to protect proprietary designs from the blatant copyist.

Section 1001 and Section 1002 of both H.R. 379 and S. 791 set the parameters for what is and is not protectable. The subject matter of protection would be similar to existing design patents. However, with removal of the unobviousness standard, and other improvements, a wider array of consumer goods, parts and industrial equipment could have a chance for protection.

The United States today lags behind other industrialized nations in offering meaningful intellectual property protection for industrial design. Countries like West Germany and Japan have a petty-patent system which does not include an obviousness standard. In fact, the United States is unique in applying the unobviousness test to industrial designs. My review of 1984 and 1985 design patent cases showed inconsistencies in applying the functionality and unobviousness standards in determining design patent invalidity rendering the system quite unreliable.

Concerns have been raised about the impact of this legislation on the marketplace and on the consumer. The granting of any intellectual property right necessitates the balancing of some restrictive market access with the consumer desire to purchase the broadest array of products at reasonable cost. We believe this legislation is both pro-competition and pro-consumer. It would:

-- clarify both the origin and value of products purchased;

-- stimulate development of new and better designs by assuring that sales and profits necessary to recoup development costs will not be undercut by look-alike products; and

-- assure the upgrading of design content in both consumer and capital goods to provide market identification.

Let me give you two examples of the problem:

Consider the case of the designer of the air gun (Exhibit 1). A small businessman -- wagon jobber -- saw that air guns used in manufacturing jobs were often cumbersome and misplaced. He designed this air gun to fit into a shirt pocket and got a design patent for this very successful implement. Within a short time, a large parts manufacturer copied his design (Exhibit 2), potentially violating the patent. However, when the case went to court, the ruling was against the designer on grounds that the air gun design was obvious and anyone could have designed it. The small businessman quickly lost his market share and his business floundered. Meanwhile, a Korean-based company began flooding the market with copies, diluting sales even further.

Or take the example of the furniture manufacturer who comes out with a new chair design only to find an exact copy on the market six months later selling for half the price and of inferior quality. Sales dropped from 50,000 unites in 1982 to 27,500 in 1984 and to under 7,000 by 1986. What started out as a profitable venture quickly disintegrated.

This legislation is narrowly focused, aimed squarely at those who copy an original and distinctive design. It is not intended to preclude the legitimate after-market parts industry. We recognize the concerns of

this industry and are seeking amendatory language which would clarify that protection does not extend to the interfit shape of a subpart to a larger article. This would address the concerns of muffler and glass manufacturers, as well as resolve the problem with a wide array of interfit parts.

The design protection is for a non-renewable term of 10 years. We believe this is a reasonable compromise between the current patent term and that afforded for trademarks. And, we are pleased to note that in recent testimony before the Senate Patents Subcommittee, Judge Giles Rich of the U.S. Court of Appeals for the Federal Circuit and long-time recognized authority on U.S. patent law, has indicated that this period of protection is reasonable. And Judge Rich has testified in support of industrial design protection.

The ability of U.S. firms to compete in the international marketplace would be enhanced by enactment of this legislation for several reasons. It would permit reciprocity by other countries through existing treaty and international agreements, enable uniform protection among treaty signatories, and effectively prevent design pirates from competing in protected design categories. And, on the question of gray market access, we believe the pending bills are neutral with respect to allowing the importation of gray market products into the United States. If this is an issue, it is one within the administration and not the proponents of the legislation.

There are certainly administrative benefits to a sui-generis form of copyright protection. The registration and fee system is far less expensive and time consuming than the current patent system. And the immediacy of protection is an advantage, particularly in the highly sensitive consumer goods area.

It is our opinion that this sui generis copyright-form of protection incorporates the best elements of existing design protection while assuring the viability of a competitive marketplace in the best interests of both the manufacturer and the customer. It deserves your strong endorsement and support.

Thank you...

CATERPILLAR INC.

Peoria, Illinois 61629 -6490

April 13, 1987

The Honorable Dennis DeConcini
Chairman Subcommittee on Patents,
Copyrights and Trademarks
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

As requested in your March 27, 1987 letter, attached are responses to supplemental questions referred to me following the March 26 hearing on the Industrial Innovation and Technology Act of 1987 (S.791).

On behalf of Caterpillar and the Industrial Design Coalition, I would like to thank you again for your continued interest and strong support for this legislation.

Very truly yours,

Manager
Patent Department

WSThompson
Telephone: (309) 675-4452
kmw/deconcin.txt

Attachment

* * *

Responses by William S. Thompson, Patent Counsel, Caterpillar Inc. on behalf of the Industrial Design Coalition to Supplemental Questions Submitted by Chairman DeConcini RE: Industrial Innovation and Technology Act (S.791) hearings, March 26, 1987.

1. QUESTION: The Insurance industry has proposed an amendment to the bill which draws a line between the initial sale of a protected item and the sale of a repair or replacement part for that item. In effect, they suggest that we not extend design protection to replacement or repair parts. In your opinion, how would such an amendment affect your bill generally and how would it affect your industry?

   ANSWER: Adoption of such an amendment is opposed by the Industrial Design Coalition. It would effectively eliminate any benefit for many of the companies involved.

   In the construction equipment industry, competitiveness problems stem from the sale of look-alike parts, not the appropriation of the overall design of the equipment. The parts business is a highly lucrative aspect of our business, representing well over 30% of Caterpillar total sales. In 1986, over $170 million in Caterpillar aftermarket parts were jeopardized by competition from look-alikes.

Over 1400 jobs at Caterpillar could be in jeopardy as a result of this unfair competition.

To exclude the coverage of replacement parts or componentry from the scope of S.791 goes well beyond the stated concerns of the insurance industry relating to the availability of non-genuine automotive crash parts.

2. QUESTION: Would you please respond to the testimony presented by the second panel. For example, is it your opinion that, as Mr. Romano states, the proposed legislation would put auto replacement glass within the class of protected designs? And what are your comments regarding Mr. Fitzpatrick's anticipated application of Sec. 1001(b)(1), "an article which normally is part of a useful article shall be deemed to be a useful article?"

ANSWER: It is the opinion of the coalition that the legislation (S.791) has no significant impact on the replacement glass business. Section 1002(a)(4) excludes that portion of a design "dictated solely by a utilitarian function of the article that embodies it." We believe such language would apply to the interfitting shapes of parts necessary to enable them to fit into an assigned space and perform a particular function. In the case of replacement glass, this would apply to the perimeter of the glass where it meets the automobile chassis. Within the perimeter, automobile glass has no distinctive shape or adornment, thus precluding it from protection.

It is not the intention of the industrial design protection coalition to limit legitimate aftermarket parts manufacturers from fairly competing in replacement parts. The legislation in no way impinges on the is ability to provide aftermarket parts of different designs. And where the design of a particular part is designated solely by its function, it could not be protected by this legislation in the first place.

We recognize the concerns of the parts manufacturers' trade associations and are working with them to develop clarifying language.

Regarding the comments of Mr. Fitzpatrick relating to Sec. 1001(b)(1), "an article which normally is part of a useful article shall be deemed to be a useful article", I know of no registration system anywhere in the world which would apply design protection of the external shape of a larger article to the internal concealed parts not illustrated as part of the registration. In other words, securing protection for the external design of an automobile would not automatically provide coverage for the internal parts. Registration would cover only the items specifically enumerated in drawings submitted to the Register of Copyrights.

Section 1001(b)(1) merely indicates that a part may be the subject of design protection when otherwise complying with the requirements of the legislation. It appears that Section 1001(b)(1) has been taken out of context. It should be remembered that the design is what is being protected. Section 1009(h) and Section 1013(5) make it clear that an illustration is required both in the application for registration and the issued certificate. This registration must be filed within one year of the time the design is made public. Thus, one seeking protection under this legislation must act more quickly and decisively to seek protection than for any other artistic or sui generis form of copyright.

3. QUESTION: Would you comment on the suggestion that the bill limit infringement of a protected design to the importation of infringing articles?

ANSWER: Limiting the scope of the legislation to only those infringing articles from abroad has the potential to violate the "national treatment principal" of the Paris Convention. The Convention, to which the United States is a signatory, expressly includes industrial designs as one of the affected categories of intellectual property rights.

As mentioned earlier, U.S.-based companies are also involved in appropriating a product's shape to confuse the customer as to source and quality. To limit a manufacturer's protection to only those off-shore copyists compromises the legislation's intent to protect the legitimate manufacturer from unauthorized infringement by the the blatant copyist regardless of origin. To do otherwise does little to resolve the important issue of customer confusion. As indicated during my testimony, fully 50% of look-alike parts competing with legitimate Caterpillar parts come from U.S. companies.

4. QUESTION: I understand that you did a study of 1984 and 1985 design patents and their enforceability in a court challenge. Would you describe your findings and the significance of this issue?

ANSWER: According to my review of 1984 and 1985 design patent cases, over 65% were held invalid or non-infringed. It appears that the courts have a difficult time applying the "unobviousness" and "functionality" tests when determining validity or infringement of a design patent.

Consider the example of case of Parke v Milton Industries Inc. A small independent parts manufacturer -- a wagon jobber -- located in Dixon Illinois saw that air guns used in manufacturing jobs were often cumbersome and misplaced. He designed an air gun in the shape designed to fit into a shirt pocket. He applied for and received a design patent for this very successful tool. Within a short time, a large parts manufacturer copied his design, potentially violating the patent. However, when the case went to court, the ruling was against the designer on grounds that the air gun design was obvious and dictated by functional considerations. The small businessman quickly lost his market share and his business floundered. Meanwhile, a Taiwan-based company began to flood the market with copies, diluting sales even further.

In only two instances over the 1984-85 period was a designer given a remedy only due to the design patent. Because the patent format suggests a broader scope of protection than is actually given, ill-conceived litigation results from designs having a vague resemblance but little shape similarity.

5. QUESTION: "Can the problems with "unobviousness" and "functionality" be addressed through modifications to our present design patent system?

ANSWER: The design patent system might be improved by special treatment given to the problems of "unobviousness"and "functionality." However, such an amended system would never be as precise and sound as the proposed legislation. It would resemble a petty patent system, an idea which has never been widely endorsed by the U.S. Patent Bar. Such an approach lowers the standards to qualify for protection without making any adjustments to the corresponding scope of protection. The question of innocent and unknowing infringement would exist in this format. It would not under the pending legislation because an infringer must be guilty of the conscious act of copying.

The pending legislation protects against only the blatant copies, a concept the judicial system can effectively deal with and which gives a welcome level of certainty.

6. QUESTION: As you understand the scope of this legislation, would it permit design protection for an entire product, such as the shape of the whole car or tractor? If so, would that design protection then apply to the internal, non-visible components of that product?

ANSWER: It may be possible for a manufacturer to apply for and secure protection for the external design of a product such as a car or tractor. However, as mentioned earlier, such protection would not automatically apply to the internal parts of the product. Such protection would have to be applied for separately.

7. QUESTION: I am aware that you are participating in the WIPO

negotiations. Would you comment on the design laws which the other participating countries have in place, how their systems are working, how our proposed system would compare, and how you think this legislation would affect the negotiations, if at all?

ANSWER: The World Intellectual Property Organization (WIPO) is not actively considering an industrial design treaty or guidelines at this time. WIPO works in close association with the Association Internationale pour la Protection de la Propriete Industrielle (AIPPI) which is an umbrella international volunteer association which administered international intellectual property treaties before the advent of WIPO and its incorporation as a United Nations Agency.

AIPPI operates as an international forum and think-tank. When an issue has evolved and been fleshed out by this organization, it will then often be passed to WIPO for more serious work relative to possible framing in an international treaty. WIPO need not wait for AIPPI but will consult with them to reach an international consensus.

Industrial designs are being discussed within a working group of AIPPI and is not before WIPO. AIPPI is reviewing industrial design systems in various countries and attempting to isolate principles which tend to be in the direction of a petty patent system.

I believe the current legislation, if enacted, would serve to build a track record and provide a model for future AIPPI-sponsored industrial design protection.

Let me point out that industrial design has recently been added by European country representatives to the GATT negotiating agenda. They argue that our laws do not confer an adequate level of protection for their native designers. They are seeking to bring about reform so that our level of protection corresponds more closely with that offered by other GATT developed nations.

April 7, 1987

BEFORE THE WORKING GROUP ON
INTELLECTUAL PROPERTY RIGHTS

Answers Submitted By Supporters
of Industrial Design Protection

1. Question: What types of products would be impacted by the legislation?

   Answer: Generally, the same subject matter as current design patents but in a more focused and reliable way. And with removal of the unobviousness standard, and other improvements, a wider array of consumer products, parts and industrial equipment might be covered. This wider coverage is offset and balanced by the fact that only acts of appropriation or copying are actionable, whereas current design patents even protect a design concept from innocent or inadvertent copiers.

   Question: What kinds of products would you expect to qualify for design copyright protection under the legislation that do not currently quality for design patent protection?

   Answer: As mentioned, there would be additional coverage possible within a product category. For example, the air gun circulated at the April 1 meeting. (The designer had a design patent but the court struck it down, finding the design functional and obvious.) Under a sui generis

copyright form of protection, without the obviousness standard, the designer could secure adequate protection.

Distinctively shaped articles and parts would be protected serving to establish product differentiation. It would serve a function similar to trademarks in identifying the source and quality the consumer has come to expect from that source. It would overcome the natural confusion that what looks the same comes from same source and therefore is of similar quality. Unfortunately, use of trademarks does not resolve the look-alike confusion rampant in today's marketplace.

However, the protection does not block market access of the will-fit part. We believe interfitting shapes would fall within the "solely functional" prohibition of the legislation because the part must interfit with the larger device to function. (Examples: window glass, batteries.) The proponents are working on amendatory language to clarify this point.

2. Question: Compare the existing state of design protection in the United States and the state that would exist if the legislation were adopted with the state of design protection in industrialized foreign countries.

Answer: All forms of design protection in the United States fail to meet the piracy problem that has developed, both in this country and abroad. No clearer recognition for this point exists than the fact that the opponents of this legislation, basically favoring the status quo, are essentially defending the right to appropriate the design of another.

It cannot be seriously argued that our laws are adequate. (See case studies attached.) Generally, foreign countries provide more effective protection for industrial designs. Europe has added industrial design protection to the GATT agenda, reflecting concern for the U.S. lower level of protection. The proposed legislation would improve the U.S. system to meet the product range of protection abroad. It would add a level of certainty and reliability that is comparable to other systems. For example, Germany has recently made clear through its supreme court that crash parts are registrable subject matter.

However, the above comments apply to foreign industrial design systems per se and not the somewhat accidental growth of the basic copyright system into this field as illustrated in the recent British Leyland case. The problem in the U.K. is not that a copyright theory was applied, but that (a) it was long-term copyright, (b) there were no registration formalities to discriminate between the protected and unprotected, and (c) only functional designs were covered. (The proposed U.S. legislation deals with all these aspects.) The U.K. system is under review following the British Leyland Motor Corp. v. Armstrong Patents Co. (1986) IHC 577 decision. A white paper has been developed, proposing a limited ten-year copyright-like protection. This proposal also contains a reciprocity clause that would only extend protection to U.S. applicants if we provided similar protection to U.K. residents. The internal U.K. debate continues to balance original designers' and appropriators' claims with the consumer's right to repair his car.

3. Question: Should we expect this legislation, on balance, to help or harm consumers?

Answer: This legislation will clearly benefit consumers. For the first time it offers the basic designer a reliable incentive system which should stimulate creative designs in the best interest of the customer. For repair and replacement parts (other than crash parts) it would

permit the customer to determine source merely by looking at the discretionary features of the shape of the part. It does not block market access of will-fit parts that look different. The consumer should have the right to buy alternative replacement parts. But it is also in the consumer's interest to know if a part's underlying quality might be different and to make an inquiry if the shape is different.

From the perspective of automotive crash parts, the bill will also help consumers. Inferior copies of original sheet metal will not be forced upon customers having their cars repaired. In addition to manufactures' identifying goods of inferior quality in the marketplace, complaints of consumers to the insurance companies are common. They have been reported in both repair trade publications and national general circulation publications like U.S. Today and Fortune.

a. Question: For what types of products will the legislation result in increased investment in the design of the products? What will be the general amount of the increase for each such type?

Answer: While we would not anticipate an increased investment, this would allow us to rest secure in the knowledge that our designs will not be stolen. There may, however, be increased design investment by aftermarket suppliers who may choose to offer replacement parts not copied from the originals.

Question: What types of new designs can we expect from this increased investment that otherwise would not be created?

Answer: Using the air gun example, designers are reluctant to take additional new product risks because design patent protection has proved useless in protecting their products, and extremely costly to litigate.

Question: To what extent will the bill solve existing problems concerning consumer confusion as to the source of quality of goods? Give examples of where product sales or reputation were harmed by consumer confusion attributable to copies of works whose designs would be protected from copying under this legislation.

Answer: Caterpillar Inc. found widespread use of look-alike fuel injection nozzles. The nozzles, identical in shape to Caterpillar's, were tested and found to be defective. Our engineers testified that these nozzles could eventually result in major engine damage. Resulting machine downtime means lost productivity and diminished product integrity. Ultimately, this translates into damaged product reputation and undermines customer confidence.

b. Question: What manufacturers and sellers could be precluded from selling what types of products as a result of this legislation? What effect will the legislation have on the price consumers pay for these products?

Answer: Manufacturers and sellers would only be precluded from copying a protected design. They would not be precluded from making and selling alternates or will-fits. Consequently, most products would not be excluded from the marketplace. Senator DeConcini, during the recent Senate Judiciary Subcommittee hearing, said he'd talked to parts manufacturers in Arizona and "they have no trouble with the bill (S.791)."

One effect of the legislation will be to shift the focus from pure unit price to a price/value decision on the part of consumers. That is, one may buy a cheaper part

he can clearly tell is not the original designer's because of shape difference. If he then has an unsatisfactory experience, he may conclude that although the price was low, the value wasn't there. It is our expectation that customers will become more value conscious and move to the best buy in relationship to overall value received.

Question: Would this legislation result in a decrease in competition for certain covered products, such as replacement or crash parts currently made by independent producers?

Answer: Manufacturers and sellers of certain articles, such as fenders, who copy the article for replacement on a vehicle would be precluded from selling these articles.

In the case of automotive crash parts, it would restrict the competition of non-OEM parts manufacturers. However, the present competition is unfair since the copiers do not have the same design, development and inventory costs to bear as the OEM.

Question: Would enactment of this legislation result in higher automobile insurance premiums as the cost of replacement or crash parts increased?

Answer: Insurance premiums have risen 57% since 1981. Collision insurance rates produced $1.7 billion profits in 1986. In fact, when asked if insurance premiums had declined as a result of crash parts competition, a State Farm representative responded "No. There are many factors which go into calculating premiums."

There is no reason to believe that crash parts prices will rise any faster than inflation.

Question: Will the legislation result in firms redesigning products for the sole purpose of controlling sales of replacements or repairs of the product even though consumers are not particularly concerned about the design (i.e., auto battery example)?

Answer: No. Redesign would not be for the purpose of controlling sales. In the case of the battery, for example, the interfit shape and clamp flanges would not be protectable. One might design special distinctive refill caps, edge trim, etc. to create a design to enable customers to identify with the manufacturer. Then, when protection expires and others copy the design, the manufacturer would be free to establish another distinctive design to recapture his identification.

Question: What is the optimal period of protection? Why ten years?

Answer: As indicated by Judge Rich in the recent Senate Judiciary Subcommittee hearings, ten years is an arbitrary number that seemed about right. It is less than the 17-year patent term, the longer term copyright and the indefinite term trademark. The international recommended standard for industrial designs is 15 years. From the practical point of view, the protection would encompass a wide range of products from those having long-term permanence to those that are quickly replaced. Ten years is a good compromise and on the modest side.

d. Question: To what extent does a lower level of design protection in the United States than overseas benefit U.S. consumers by permitting competing sellers of the design in the U.S. when no such competition is permitted in countries where the design is protected.

Answer: This seems to imply the philosophy often expressed by Third World countries that an absence of

intellectual property protection benefits society. The successful countries in the industrialized world are the ones who do in fact have strong intellectual property systems, including more effective design protection systems than ours. If we abandon intellectual property protection in part or in whole, then we seem to be saying we want to encourage the intellectually bankrupt copyist over the original designer.

4. Question: Does it make sense to have a more permissive standard for protection of intellectual property in the area of design than in the area of invention? Is it more difficult to evaluate obviousness with respect to design than with respect to invention?

   Answer: Absolutely. The U.S. is the only country in the world that applies the unobviousness test. It has been a great source of the delays, denial of protection and judicial confusion that permeates this field. Inventions are conceptual ideas that draw on completely different intellectual qualities than designs.

5. Question: When is a design "dictated solely by a utilitarian function of the article that embodies it?" When a design is ornamental but also serves a unique function, can the proposed legislation ever have the effect of precluding persons from making a product that serves the same function?

   Answer: The most unadorned example of a "solely functional" design could be a cylindrical shaft. In the case of parts, as mentioned, the interfit shape would meet this criteria.

   A person would never be precluded from making a product performing the same function since underlying function is expressly not protectable by the proposed legislation.

6. Question: What would the effect of the legislation be on the ability of U.S. firms to compete in international markets?

   Answer: Ability to compete in international markets would be enhanced. This is the flip side to the Question 3(d). If U.S. designers are encouraged from the outset to create their own original designs, they are less likely to infringe on the more effective foreign design protection.

7. Question: Describe any other costs or benefits to the legislative proposal.

   Answer: To reiterate what has been said above, the consumer will benefit from the ability to distinguish between competing parts and products to make an informed decision.

   Jobs in specific industry sectors will be protected. For example, the U.S. automobile manufacturers estimate about 6,000 manufacturing jobs may be saved if offshore copying is prevented.

8. Question: What would be the effect of maintaining an obviousness standard for design protection but using a registration system instead of the current examination system? Under a registration system issued patents could be evaluated for validity either in court or in a re-examination procedure in the Patent and Trademark office.

   Answer: This would not solve anything. The 60% or more of the design patents rejected by the PTO would exist as registrations flooding the field with an even higher percent of invalid registrations. This would increase, not decrease, nonproductive, costly litigation.

9. Question: What would be the bill's effect on imports?

   Answer: It would reduce importation of copied products. Otherwise, imports would not be effected by the pending bills.

10. Question: What would be the bill's effect on exports?

    Answer: It should increase exports. Parts suppliers will want to provide alternative designs of their own that meet worldwide market needs. They would not by choice want to make a different product for U.S. market and a copied product for foreign markets. Thus, product differentiation will extend to some degree beyond U.S. borders and perhaps lead to more purchases of U.S. manufactured goods abroad.

11. Question: How would the bill's effects on imports and exports be implemented?

    Answer: As with other forms of intellectual property, it would be left to private parties to assert their design rights via civil action, ITC proceedings, notices, warnings, mutual settlements, etc. U.S. designers would need to take advantage of the protection by registering their designs. Those wishing to copy could search registrations. Upon finding that a design has been allowed to enter the public domain, they could proceed with much greater confidence that they won't run up against an unfair competition claim.

Industrial Design Protection Coalition

Overview of Economic Impact:

There are approximately 6500 industrial designers practicing throughout the Unites States as consultants and within corporations. It is estimated that the average industrial designer annually affects over $100 million of the U.S. Gross National Product.

The Gallup Organization completed a study in 1985 of how U.S. business uses industrial design and what it considers to be industrial design's contribution. Senior business executives rate industrial design as 60 percent responsible for the success of a product. Twenty-three percent rated industrial design's contribution at 80 percent or better.

Case Studies/Examples:

1. Air Gun - (Parke v. Milton Industries, Inc.):

   This is the example discussed at the April 1, 1987 meeting of the Working Group. Development of the air gun was by a small business (waggon jobber) in Dixon, Ill. Within 2 months of marketing the design, he had recouped his initial cost of development He sold approximately 5000 units/month). However, his litigation costs in the unsuccessful defense of this design patent infringement nearly bankrupt him. In addition, the small machine shop in Dixon (home of President Reagan) where the product was built lost a significant share of its business.

   The small businessman has several other designs which he would like to bring to market, but is reluctant to do so given the inability to adequately protect them from copying.

2. Diversified Products (D/P), Opelika, Alabama 36803:

   Manufacturer of exercise and fitness equipment. D/P has initiated an International Trade Commission Action (Sec. 337) against a competitor. The facts of the case are proprietary. However, the

case number is: USITC-337-TA-212; Appeal number is: 86-978. While D/P would not release cost date, which they also hold proprietary, they view this as a major case, representing millions of dollars in potential sales.

3. Office Furniture Design Company:

A nationally recognized office furniture company produced a new furniture system (desk, partitions, files). The total cost to bring this system to market was $11 million. Of that, over $2 million was dedicated to design of the system. The pay-back on the design portion of the cost was almost 10 months. On average, it takes 14 months to secure a design patent, rendering it useless for protection of many products.

4. Heavy Equipment Manufacturer:

A manufacturer of heavy equipment recently introduced a significant new product. The total Research and Engineering cost of product development was $29 million, of which $12 million was directly related to design research and engineering. Design costs are a major factor in the development and introduction of capital as well as consumer products.

5. Major construction equipment manufacturer:

A review of 1986 sales data indicates that almost $170 million in parts sales were jeopardized by look-alike competition in the marketplace. This translates into a potential job loss of over 1400 jobs.

Senator DECONCINI. Thank you, Mr. Thompson.
Mr. Richardson?

STATEMENT OF JOSEPH E. RICHARDSON III, RICHARDSON BROTHERS CO., SHEBOYGAN FALLS, WI, REPRESENTING THE AMERICAN FURNITURE MANUFACTURERS ASSOCIATION

Mr. RICHARDSON. Mr. Chairman, I want to thank you for the opportunity to present the views of the American Furniture Manufacturers Association on the issue of protection of industrial designs.

AFMA is the largest furniture manufacturing trade association in the United States. By dollar volume, sales by AFMA member companies comprise the vast majority of residential furniture products in the United States. Also, AFMA members have home offices or facilities in almost the entire 50 States and provide employment to several hundred thousand persons.

I will leave the technical discussions of intellectual property law to the other experts appearing before you today, and will instead focus on the underlying reasons the furniture manufacturing industry is in support of S. 791.

I am vice president of design and product development for Richardson Brothers Co. Richardson Brothers Co. is located in Sheboygan Falls, WI, and is the oldest family-owned and -managed furniture manufacturing company in the United States. I am the sixth generation to be involved in our business. We have survived and prospered over the years because of our commitment to innovation and our ability to produce a high-quality product for the American

consumer. Like many companies in the furniture manufacturing industry, we enjoy competition; however, at times the competition assumes an element of unfairness.

Let me give you two examples. About 2 years ago we received a price list and catalog from a furniture manufacturer seeking to sell low-cost chairs to my company for use in our product line. His makeshift catalog consisted of Polaroid pictures stapled to onion skin paper. The pictures were of Richardson Brothers chairs introduced less than 1 year earlier. Of course, we declined the offer; but soon these non-Richardson Brothers products began appearing in the marketplace. Many consumers who purchased the chairs mistakenly believed they were buying Richardson Brothers products. Our competitor's design was exact, the price substantially less, and the quality was inferior.

Our most notable experience has been with two bowback Windsor chairs I designed several years ago. Shortly after introduction they became our bestsellers; unfortunately, within a few months at least a half a dozen copies appeared, and today there are at least twice that many. These chairs were a very profitable and substantial part of our product line. Our sales in 1982 for this line alone were estimated at 50,000 units; in 1984, approximately 27,500; and in 1986, they were 7,533.

As a company that spends a significant amount of time and money on design and product development, we do not feel it is fair to lose business to someone who essentially makes a living off of our efforts. We are not alone in this situation. There are numerous instances in the furniture manufacturing industry where pirates have appropriated the efforts of original designers. Design patent protection under current law does not afford adequate protection from this type of piracy.

In the first place, it takes upwards of 2 years to obtain a design patent. Two years is a lifetime in the furniture industry. The situation is somewhat similar to that of the computer industry inasmuch as product cycles and fashion trends dictate rapid new product development. I will admit some bias on this matter, but it doesn't make any sense to provide design protection to computer chips but provide no relief to the furniture, which is equally essential to the computer's operation. In addition, design patents don't provide retroactive protection, so infringement during the 2-year application process is also possible.

Even the limited measure of protection afforded by design patents is rendered moot by the difficulty of litigating in this process. Under the legal standards applied by the courts, design patent litigation is expensive and the outcome is unpredictable. In short, a design patent is, in many cases, simply a license to sue with little or no chance of recovery.

With the above in mind, I urge your strong support for S. 791. I think it provides a credible remedy to the unconscionable circumstances presently existing in our industry.

Thank you again for the opportunity to express my views. I'd be pleased to answer any questions you might have.

[Submissions of Mr. Richardson follow:]

STATEMENT

OF

JOSEPH E. RICHARDSON, III
VICE PRESIDENT
RICHARDSON BROTHERS COMPANY
SHEBOYGAN FALLS, WISCONSIN

ON BEHALF OF

THE AMERICAN FURNITURE MANUFACTURERS ASSOCIATION

MR. CHAIRMAN, MEMBERS OF THE SUBCOMMITTEE, I WANT TO THANK YOU FOR THE OPPORTUNITY TO PRESENT THE VIEWS OF THE AMERICAN FURNITURE MANUFACTURERS ASSOCIATION (AFMA) ON THE ISSUE OF PROTECTION OF INDUSTRIAL DESIGNS. AFMA IS THE LARGEST FURNITURE MANUFACTURING TRADE ASSOCIATION IN THE UNITED STATES. BY DOLLAR VOLUME, SALES BY AFMA MEMBER COMPANIES COMPRISE THE VAST MAJORITY OF RESIDENTIAL FURNITURE PRODUCTS IN THE UNITED STATES. ALSO, THE AFMA MEMBERS HAVE HOME OFFICES OR FACILITIES IN ALMOST THE ENTIRE FIFTY STATES AND PROVIDE EMPLOYMENT TO SEVERAL HUNDRED THOUSAND PERSONS.

I WILL LEAVE THE TECHNICAL DISCUSSION OF INTELLECTUAL PROPERTY LAW TO THE OTHER EXPERTS APPEARING BEFORE YOU TODAY, AND WILL INSTEAD FOCUS ON THE UNDERLYING REASONS THE FURNITURE MANUFACTURING INDUSTRY IS SUPPORTIVE OF S. 791.

I AM VICE-PRESIDENT OF DESIGN AND PRODUCT DEVELOPMENT FOR RICHARDSON BROTHERS COMPANY. RICHARDSON BROTHERS COMPANY IS LOCATED IN SHEBOYGAN FALLS, WISCONSIN, AND IS THE OLDEST FAMILY OWNED AND MANAGED FURNITURE MANUFACTURING COMPANY IN THE UNITED STATES. I AM THE SIXTH GENERATION TO BE INVOLVED IN OUR BUSINESS. WE HAVE SURVIVED AND PROSPERED OVER THE YEARS BECAUSE OF OUR COMMITMENT TO INNOVATION AND OUR

ABILITY TO PRODUCE A HIGH QUALITY PRODUCT FOR THE AMERICAN CONSUMER.

LIKE MANY COMPANIES IN THE FURNITURE MANUFACTURING INDUSTRY, WE ENJOY COMPETITION. HOWEVER, AT TIMES THE COMPETITION ASSUMES AN ELEMENT OF UNFAIRNESS.

LET ME GIVE TWO EXAMPLES. ABOUT TWO YEARS AGO WE RECEIVED A PRICE LIST AND CATALOG FROM A FURNITURE MANUFACTURER SEEKING TO SELL LOW-COST CHAIRS TO MY COMPANY FOR USE IN OUR PRODUCT LINE. HIS MAKESHIFT CATALOG CONSISTED OF POLOROID PICTURES STAPLED TO ONION SKIN PAPER. THE PICTURES WERE OF RICHARDSON BROTHERS CHAIRS INTRODUCED LESS THAN ONE YEAR EARLIER. OF COURSE, WE DECLINED THE OFFER, BUT SOON THESE NON-RICHARDSON BROTHERS PRODUCTS BEGAN APPEARING IN THE MARKETPLACE. MANY CONSUMERS WHO PURCHASED THE CHAIRS MISTAKENLY BELIEVED THEY WERE BUYING RICHARDSON BROTHERS' PRODUCTS. OUR COMPETITOR'S DESIGN WAS EXACT, THE PRICE SUBSTANTIALLY LESS AND THE QUALITY INFERIOR.

OUR MOST NOTABLE EXPERIENCE HAS BEEN WITH TWO BOWBACK WINDSOR SIDE CHAIRS I DESIGNED SEVERAL YEARS AGO. SHORTLY AFTER INTRODUCTION THEY BECAME OUR BEST SELLERS. UNFORTUNATELY, WITHIN A FEW MONTHS, AT LEAST HALF A DOZEN COPIES APPEARED, AND TODAY THERE ARE AT LEAST TWICE THAT MANY. THESE CHAIRS WERE A VERY PROFITABLE AND SUBSTANTIAL PART OF OUR PRODUCT LINE. OUR SALES IN 1982 FOR THIS LINE ALONE WERE AN ESTIMATED 50,000 UNITS; IN 1984, APPROXIMATELY 27,500; BY 1986, 7,533.

AS A COMPANY THAT SPENDS A SIGNIFICANT AMOUNT OF TIME AND

MONEY ON DESIGN AND PRODUCT DEVELOPMENT, WE DO NOT FEEL IT IS FAIR TO LOSE BUSINESS TO SOMEONE WHO ESSENTIALLY MAKES A LIVING OFF OF OUR EFFORTS. WE ARE NOT ALONE IN THIS SITUATION. THERE ARE NUMEROUS INSTANCES IN THE FURNITURE MANUFACTURING INDUSTRY WHERE PIRATES HAVE APPROPRIATED THE EFFORTS OF ORIGINAL DESIGNERS. DESIGN PATENT PROTECTION UNDER CURRENT LAW DOES NOT AFFORD ADEQUATE PROTECTION FROM THIS TYPE OF PIRACY.

IN THE FIRST PLACE, IT GENERALLY TAKES UPWARDS OF TWO YEARS TO OBTAIN A DESIGN PATENT. TWO YEARS IS A LIFETIME IN THE FURNITURE INDUSTRY. THE SITUATION IS SOMEWHAT ANALOGOUS TO THAT OF THE COMPUTER INDUSTRY, INASMUCH AS PRODUCT CYCLES AND FASHION TRENDS DICTATE RAPID NEW PRODUCT DEVELOPMENT. I WILL ADMIT SOME BIAS ON THIS MATTER, BUT IT DOESN'T MAKE ANY SENSE TO PROVIDE DESIGN PROTECTION TO COMPUTER CHIPS BUT PROVIDE NO RELIEF TO THE FURNITURE WHICH IS EQUALLY ESSENTIAL TO COMPUTER OPERATION. IN ADDITION, DESIGN PATENTS DON'T PROVIDE RETROACTIVE PROTECTION, SO INFRINGEMENT DURING THE TWO YEAR APPLICATION PROCESS IS ALSO POSSIBLE.

EVEN THE LIMITED MEASURE OF PROTECTION AFFORDED BY DESIGN PATENTS IS RENDERED MOOT BY THE DIFFICULTY OF LITIGATING IN THIS AREA. UNDER THE LEGAL STANDARDS APPLIED BY THE COURTS, DESIGN PATENT LITIGATION IS EXPENSIVE, AND THE OUTCOME IS UNPREDICTABLE. IN SHORT, A DESIGN PATENT IS, IN MANY CASES, SIMPLY A LICENSE TO SUE WITH LITTLE OR NO CHANCE OF RECOVERY.

WITH THE ABOVE IN MIND, I URGE YOUR STRONG SUPPORT FOR

S.791. IT PROVIDES A CREDIBLE REMEDY TO THE UNCONSCIONABLE CIRCUMSTANCES PRESENTLY EXISTING IN OUR INDUSTRY.

THANK YOU AGAIN FOR THE OPPORTUNITY TO EXPRESS MY VIEWS ON THIS BILL. I WOULD BE PLEASED TO ANSWER ANY QUESTIONS YOU MAY HAVE.

Additional Questions to Submit to Mr. Richardson for Written Reponse

Q. #1. The insurance industry has proposed an amendment to the bill which draws a line between the initial sale of a protected item and the sale of a repair or replacement part for that item. In effect, they suggest that we not extend design protection to replacement or repair parts. In your opinion, how would such an amendment affect the bill generally and how would it affect your industry?

A. #1. I don't think this amendment would affect the furniture industry in a negative way. However, I don't think it is right to steal anyones ideas at any time.

Q. #2. Some furniture is built to standardized, traditional lines and would not likely qualify for design protection. What types of furniture do you see copying prevalent in? What income groups would be affected by a cutoff in copying? Would lower income consumers be affected or more well-to-do ones?

A. #2. Copying in the furniture industry is prevalent in all style catagories. As an industry that dates back well over 2000 years, the use of some common design elements is practically unavoidable. Bill 791, while omitting the requirement of non-obviousness, does require a protected design to be original and distinctive, both of which will prevent improper protection.

I do not think any income group would be affected in a negative way if we could stop copying. In fact, all consumers would benefit because there would be a wider range of products to choose from. Consumers, at all income levels, are now being cheated because copying, not creativity, is being encouraged by our governments lack of action.

American ★ Furniture
Manufacturers Association

OFFICE FOR GOVERNMENT AFFAIRS

918 16TH STREET, NW, SUITE 402
WASHINGTON, D.C. 20006
(202) 466-7362

March 27, 1987

Tara McMahon
Majority Counsel
Subcommittee on Patents, Copyrights
and Trademarks
Senate Judiciary Committee
United States Senate
Washington, DC 20510

Dear Tara:

Thank you for the opportunity to present our views on S. 791. The perspective of the furniture manufacturing industry (i.e., a non-auto/insurance industry) will, I believe, bolster the fundamental intellectual premise of the legislation.

As requested of Mr. Richardson at the March hearing, AFMA estimates that approximately 20,000 jobs have been lost in the American furniture industry since 1979. While all of the lost employment cannot be directly attributed to unfair appropriation of industrial designs, certainly a significant portion can be.

Please fee free to call if you need any additional information.

Sincerely,

Joseph G. Gerard
Vice President

Senator DECONCINI. Thank you, Mr. Richardson.
Mr. Newtson?

STATEMENT OF GARY L. NEWTSON, CHIEF PATENT COUNSEL, CHRYSLER MOTORS CORP., HIGHLAND PARK, MI, REPRESENTING THE MOTOR VEHICLE MANUFACTURERS ASSOCIATION

Mr. NEWTSON. My name is Gary Newtson. I am chief patent counsel of Chrysler Motor Corp. I am here today to testify on behalf of the Motor Vehicle Manufacturers Association.

We are here because the automobile collision repair customer does not benefit by the increasing use of nongenuine, sometimes inferior and substandard crash parts in the repair of their vehicles.

The automobile manufacturer has an obligation to the consumer to build and stock all parts for its vehicles. The imitators copy the high-volume parts, thus getting a free ride on the manufacturer's design, development and engineering costs, without incurring the inventory and quality obligations of the manufacturer. Our American technology is being misappropriated. And why?—because the United States does not have the same industrial property protection as our major trading partners. It is time we addressed this issue.

At the present time, industrial design protection is provided by, or more aptly limited to that protection offered under the trade-

mark and patent laws of our country. Our copyright law prevents protection of most product designs since the design, to be protectible, must be at least visually separable from the utilitarian aspects of the product, such as a paperweight or a flower vase. This is almost impossible in the case of most industrial products.

Under our trademark law, good protection can be obtained on the design of a product if the design is very recognizable as a result of long use by the owner. Aside from the length of time which must pass to achieve such a status, it is unlikely that many industrial designs will ever become so recognizable that trademark protection will be useful.

The primary means for protecting a product design is, of course, a design patent. However, as is generally known, the preparation, filing, prosecution and issuance of a design patent easily consumes 2 to 3 years. In spite of attempts by the Court of Appeals for the Federal Circuit to clarify the standards of unobviousness for design patents, the standard of patentability still remains ill-defined.

Judicial decisions involving design patents over the past 80 years have also made it very difficult to be enthusiastic about the protection afforded under the current law. Over 70 percent of design patents litigated recently have been found invalid. In view of this trend, it is no wonder that American industrial designers, inventors and the industries in which they work have become very disillusioned.

S. 791 basically would provide limited copyright protection for the design of a useful article, which design is intended to make an article attractive or distinct in appearance. We believe that the bill would provide meaningful legislation in the design area in carrying out the full intent of article I, section 8, of our Constitution.

This legislation is particularly appropriate at this time because today's climate is vastly different from the past due in large part to the recent actions of the insurance industry in the crash parts market place. These actions are directed at proposing—if not insisting—that the repair of an insured vehicle can be properly accomplished with the use of nongenuine crash parts which unfortunately are often defective and substandard. The entry into the United States of these nongenuine parts is permitted by the lack of effective protection of intellectual property embodied in manufactured useful goods created by American workers. This has resulted in the widespread copying of American-designed goods, becoming an industry in certain parts of the world. This certainly contributes adversely to the balance of trade. There is a need for legislation to protect against the uncompensated use of American-created intellectual property in the design of manufactured useful goods to enhance our world competitive position.

We have here some examples of useful articles from our industry and examples of the so-called competitive copies which have been discovered in the market.

I would like to draw your attention to the four fenders in this room. The first fender, on your left, is a nongenuine fender which was subjected to a 300-hour salt spray test, a test which is similar to those run by all domestic manufacturers. This nongenuine fender exhibited rust at 55 hours.

The second fender, in front of me, is a Chrysler fender which was subjected to the same 300-hour salt spray test. You will note the absence of rust on the Chrysler fender.

The third fender, to my left, was purchased from a leading imitation parts distributor and tested for fit problems. This fender exhibited 50 deficiencies. Some of these deficiencies are worth noting. For example, looking at item No. 11 on the front of the fender up in the corner, you can see there is a split in the metal. A split weakens the structural stability of the panel. Item No. 50 merely points out that the panel is not galvanized, and this could lead to a premature rust-through condition for the consumer, such as in this first fender. Item No. 24, which is on the inside and not visible to the chairman at the present time, shows that a break line at the hood hinge ledge flange is missing. This is a safety feature which we put on our vehicles to keep mechanics from cutting their arms as they reach into the engine compartment to work on the engine.

The fender on the far left is a newly purchased nongenuine fender from a leading parts importer in the United States. It has 36 deficiencies. Our vehicles are designed so that the sheet metal will absorb energy in a particular manner to enhance its safety and to meet Federal safety requirements. Many safety crash tests are conducted. We have no assurance from the distributors of these inferior sheet metal parts or the insurance industry that the parts will perform in the same manner as OEM parts.

In my hand are examples of poor hood hinge welds on a hood which was copied and sold as a replacement part for a Ford. The hinge was not welded in the same manner as the Ford hood, and it will probably structurally deform. If an effective means had existed to prevent the copying of the Ford hinge, these poor welds would not have been created.

Down on the floor in front of you there are also examples of hood latches, which show that the Ford latch was welded in several more places than the imported latch.

We also have a collection of photos and brochures which were distributed to the subcommittee before the meeting. I believe they are in front of you.

They clearly demonstrate the problems of copied parts.

Let's now look at this from the point of view of a consumer who—in many cases, unknown to him—has had his vehicle repaired with nongenuine crash parts.

He has little or no rustproofing protection. The parts used may create fit and finish appearance problems. There may be problems of structural integrity. The sheet metal almost certainly possesses a different crash-resistance characteristic than the original manufacturer parts. And, with extended manufacturer warranties, owners of older vehicles may find—after it's too late—that the exterior sheet metal parts that have been replaced by nongenuine parts will not be covered by the manufacturer's warranty.

The MVMA member company replacement body parts are designed to fit properly because they are produced on the same tooling as parts installed on a new vehicle. The styled parts are the design and development products of creative design engineers, model makers, and other artisans. The intellectual property content not now protected is extensive, and very expensive. Imitation

replacement parts may not fit properly in such crucial locations as the hood-to-fender or the fender-to-door areas. The imitations are made by simply taking a part off of a car and using it to make the stamping die. They often use a copying process that is inaccurate and sometimes careless, resulting in parts like those on display here. No wonder they are cheaper. Moreover, the copyists copy only the most crash prone parts and do not bear the expense of carrying a full line of sheet metal parts.

Regardless of how the offshore manufacturers' imitation body parts are portrayed, the truth is that the parts are generally not of a like kind and quality to an original. We recognize, however, that there may be some parts which will be comparable. They are, we submit, the exception. We are not aware of any quality control system which would ensure quality parts by these imitators.

As to the question of consumer economic benefit, it must be weighed against the total cost, which may include quality, safety, and appearance considerations.

The presence of the inferior copies in the market affects the good will of manufacturers of genuine articles. We are not talking only about the loss of fender sales, but also the loss of a vehicle customer. It takes only a few defective parts to do substantial damage to the manufacturer's reputation. This is an objective quality issue; this is an appearance issue; and this is an issue that affects American business and the American worker as an employee and as a consumer.

The United States is at a competitive disadvantage with international design protection. Our major trading partners all have some form of industrial design protection and actively make use of it to promote competitiveness of their domestic producers. We simply cannot afford to continue to neglect the creative efforts of our designers. The Trademark Counterfeiting Act of 1984 has helped in the counterfeiting of component problems. The Semiconductor Chip Act recognized that the law needed to be expanded to protect this specialized product not otherwise adequately protected by our U.S. intellectual property laws. Our system for protecting industrial designs needs to be redesigned itself.

The point of all this is—the American public and American industry are being harmed, not just in the automotive field, but in the communication, agricultural equipment, and furniture fields and many more industrial areas. This bill should help us eliminate the harm and we support it.

I would like to thank the chairman and the members of this committee for allowing me to present MVMA's views, and we urge the enactment of S. 791 to prevent the theft of creative efforts.

[Submissions of Mr. Newtson follow:]

March 24, 1987

POSITION STATEMENT
RE: INDUSTRIAL INNOVATION AND TECHNOLOGY ACT OF 1987

This statement of position is directed to the subject of industrial design protection, and in particular to the Motor Vehicle Manufacturers Association's support of S. 791.

American automobile collision repair customers are being increasingly provided with inferior products in repairing their vehicles. This results from the fact that our vehicle styling technology is being stolen by unauthorized copiers who do not contribute any creativity to the products they sell. Our present ineffective design protection laws allow this to happen, giving the copiers a free ride on American styling technology.

Specifically, the value of the currently existing form of protection for industrial designs, the design patent, has diminished over the last several decades. This has been due to the interpretation of the patent law by the Courts, and particularly the interpretation of the "unobviousness" concept that must be met to obtain valid design patent protection.

The current copyright law also does not protect industrial designs of useful articles. A provision on this subject in the legislation leading to the 1976 Copyright Act was deleted prior to enactment of such act.

Many vehicle components which incorporate industrial design technology features, such as fender designs, door skin designs, bumper designs, hood and rear deck panel designs, of the vehicles produced by our member companies are being copied in foreign countries, shipped to the United States and sold as replacement parts by the importers.

The copiers have not incurred the cost of design of the vehicle and sheet metal involved, nor taken any business risk that the design will be accepted by the purchasing public. Moreover, the copiers pick and choose the particular (and most profitable) parts they wish to copy and avoid the more costly and perhaps less profitable components which the original automotive manufacturer is required to produce. They can and sometimes do substitute inferior and defective parts. We feel this copying activity is unfair to automotive workers, consumers and manufacturers, and amounts to a theft of technology.

MVMA believes the enactment of a bill substantially along the lines of S. 791 would provide an effective and equitable means to combat a growing problem in our industry. Accordingly, MVMA supports the legislation.

* * *

STATEMENT OF MVMA BEFORE SUBCOMMITTEE ON

PATENTS, COPYRIGHTS AND TRADEMARKS

U.S. SENATE - MARCH 26, 1987

My name is Gary Newtson. I am Chief Patent Counsel of Chrysler Motor Corporation, and a member of the Motor Vehicle Manufacturers Association Patent, Trademark and Copyright

Committee. I'm here today to testify on behalf of the Motor Vehicle Manufacturers Association (MVMA)*

We are here because the automobile collision repair customer does not benefit by the increasing use of non-genuine, and sometimes inferior and substandard crash parts in the repair of their vehicles.

The automobile manufacturer has an obligation to the consumer to build and stock all parts for their vehicles. The imitators copy the high volume parts, thus getting a free ride on the manufacturer's design, development and engineering costs, without incurring the inventory and quality obligations of the manufacturer. Our American technology is being misappropriated. Why? - because the U.S. does not have the same industrial property protection as our major trading partners. It is time we addressed this issue.

MVMA believes that the United States needs legislation to protect the design of useful articles.

At the present time, industrial design protection is provided by, or more aptly limited to that protection offered under the trademark and patent laws of our country. Our copyright law prevents protection of most product designs since the design, to be protectible, must be at least visually separable from the utilitarian aspects of the product, such as a paperweight or a flower vase. This is almost impossible in the case of most industrial products.

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* MVMA represents U.S. automobile, truck and bus manufacturers producing more than 98 percent of all domestic motor vehicles. MVMA members are: American Motors Corporation; Chrysler Corporation; Ford Motor Company; General Motors Corporation; Honda of America Mfg., Inc.; LTV Missiles and Electronics Group, AM General Division; M.A.N. Truck & Bus Corporation; Navistar International Corporation; PACCAR Inc; Volkswagen of America, Inc., and Volvo North America Corporation.

Under our trademark law, relatively good protection can be obtained on the design of product if the design is very recognizable as a result of long use by the owner. Aside from the length of time which must pass to achieve such a status, it is unlikely that many industrial designs will ever become so recognizable that trademark protection will be useful.

The primary means for protecting a product design is, of course, a design patent. What is a design patent and how did it evolve? In 1842, Congress passed the first U.S. statute aimed at the protection of useful articles having a pleasing ornamental appearance. This law was passed to bridge the gap between the protection afforded under the copyright law and the patent law. The 1842 act protected specified classes of articles including certain "useful" patterns, prints or pictures to be fixed to an "article of manufacture".

The wording was clarified in 1902 - "useful" was replaced with "ornamental" to make it clear that the designs did not refer to the mechanical utility, but rather to the appearance of the article.

The past 85 years have produced no significant changes and the present law (35 USC 171) provides that

> "Whoever invents any new, original and ornamental design for an article of manufacture may obtain a patent therefore, subject to the conditions and requirements of this title."

As is generally known, the preparation, filing, prosecution and ultimate issuing of a design patent easily consumes two to three years. In spite of attempts by the Court of Appeals for the Federal Circuit to clarify the standard of unobviousness for design patents, the standard of patentability is ill-defined. Judicial decisions involving design patents over the past 80 years have also made it very difficult to be enthusiastic about

the protection afforded under the current law. The courts have found it almost impossible to apply the obviousness standard and in any event, over 70% of design patents litigated recently have been found invalid. In view of this trend it is no wonder that American industrial designers, inventors and the industries in which they work have become disillusioned. Creatively designed industrial objects such as telephones, furniture, and automotive sheet metal can and are being copied without the creator's authorization.

The design patent protection limits, - those which arise from their legal limitation as well as judicial interpretation - have led designers and inventors over the past 25 - 30 years to find and develop alternative and more effective forms of protection. In particular, efforts have been made since 1957 to change the copyright law to provide for the protection of the attractive or distinctive appearance of useful objects. These efforts have been promoted without success by various associations and groups.

S. 791 basically would provide limited copyright protection for the design of a useful article, which design is intended to make an article attractive or distinct in appearance. A useful article is one that in normal use has an intrinsic utilitarian function that is not merely to portray the appearance of the article or convey information. Legislation in previous Congresses was criticized as being too broad; under S. 791 the design bill must be fixed in a useful article to be protectible. This sufficiently reduces the scope of protection provided to satisfy this criticism. We believe the bill would provide meaningful legislation in the design area in carrying out the full intent of Article I, Sec. 8 of our Constitution.

This legislation is particularly appropriate at this time because today's climate is vastly different from the past due in large part to the recent actions of the insurance industry in the

crash parts market place. These actions are directed at proposing if not insisting that the repair of an insured vehicle can be properly accomplished with the use of non-genuine crash parts, which unfortunately are often defective and substandard. The entry of these non-genuine parts is permitted by the lack of effective protection of intellectual property embodied in manufactured useful goods created by American workers. This has resulted in the widespread copying of American designed goods, becoming an industry in certain parts of the world. This certainly contributes adversely to the balance of trade. There is a need for legislation to protect against the uncompensated use of American created intellectual property in the design of manufactured useful goods to enhance our world competitive position.

We have here some examples of useful articles from our industry and examples of the so-called competitive copies which have been discovered in the market.

I would like to draw your attention to the four fenders in this room. The first non-genuine fender (all rusted) was subjected to a 300 hour salt spray test, a test which is similar to those run by all domestic manufacturers. This non-genuine fender exhibited rust at 55 hours.

The second fender is a Chrysler fender which was subjected to the same 300 hour salt spray test. Note the absence of rust on the Chrysler fender. The third fender was purchased from a leading imitation parts distributor and tested for fit problems. This fender exhibits 50 deficiencies.

Some of these deficiencies of this fender are:

Item #11 Split in metal - a split weakens structural stability of panel.

Item #4 Head lamp mounting surface shallow - head lamp bezel will be overflush to fender causing appearance and fit problems.

Item #14 Trim line is too long - this will cause a mismatch in the front grills to fender area. Once again, this will cause additional consumer dissatisfaction.

Item #8 Character line at bottom of panel not distinct - will cause an appearance problem at lower fascia.

Item #32 Character lines wash out - will not match door panel, an appearance problem.

Item $50 Panel not galvanized - could lead to a premature rust-through condition for the consumer.

Item #19 Cowl area - rear peak at top of door line will not match to windshield and door opening.

Item #10 Hood ledge mounting holes off location - fender to hood will not match.

Item #24 Break line at hood ledge flange missing - a safety feature to prevent injury when working on engine.

Item #18 Formation missing at slots in rear bottom of fender - needed to set contour of fender to door - poor fit and appearance.

This fender is a newly purchased non-genuine fender and has 36 deficiencies. Even a small tear structurally weakens a fender. Our vehicles are designed so that the sheet metal will absorb energy in a particular manner to enhance its safety and to meet Federal safety requirements. Many safety crash tests are conducted. We have no assurance from the insurance industry or the distributors of these inferior sheet metal parts that the parts will deform in the same manner as OEM parts.

This is an example of poor hood hinge welds on a hood which was copied and sold as a replacement part for a Ford. If effective means existed to prevent the copying of the Ford hood these poor welds would not have been created.

We also have a collection of photos and brochures which clearly demonstrate the problems of copied parts.

I have just highlighted some of the differences in quality between original and imitation sheet metal.

Let's look at this from the point of view of a consumer who -- probably unknown to him -- has had his vehicle repaired with non-genuine crash parts.

- He has no rustproofing protection.
- The parts used may create fit and finish appearance problems.
- There may be problems of structural integrity.
- The sheet metal almost certainly possesses a different crash-resistance characteristic than original manufacturer parts.
- And, with extended manufacturer warranties, owners of five or six year old vehicles may find -- after it's too late -- that the exterior sheet metal parts which have been replaced by non-genuine parts will not be covered by the manufacturer's warranty.

MVMA member company replacement body parts are designed to fit properly because they are produced on the same tooling as parts installed on a new vehicle. The styled parts are the design and development products of creative design engineers, model makers and other artisans. The intellectual property content not now protected is extensive and expensive. Imitation replacement body parts may not fit properly in such crucial locations as the hood to fender or fender to door area. The imitations are made by taking a part off a car and using it to make the stamping die. They often use a copying process that is inaccurate and sometimes careless, resulting in parts like those on display. No wonder they are cheaper. Moreover, the copyists copy only the most crash prone parts and do not bear the expense of carrying a full line of sheet metal parts.

Chrysler's corrosion treatment includes two-sided galvanized sheet metal. Most imitation replacement sheet metal parts, we

have seen, are not galvanized or are only partially galvanized, making them susceptible to premature corrosion.

Regardless of how the offshore manufacturers' imitation body parts are portrayed, the truth is the parts are often not of a like kind and quality to an original.

As to the question of consumer economic benefit it must be weighed against the total cost which may include quality, safety and appearance considerations.

The presence of the inferior copies in the market affects the good will of manufacturers of genuine articles. We are talking not only about the loss of fender sales but also the loss of a vehicle customer. It only takes a few defective parts to do substantial damage to the manufacturer's reputation. This is an objective quality issue - this is an appearance issue - this is an issue that affects American business and the American worker as an employee and as a consumer.

The U.S. is at a competitive disadvantage with international design protection. Our major trading partners all have some form of industrial design protection and actively make use of it to promote competitiveness of their domestic producers and the intellectual design property of their creative workers. We simply cannot afford to continue to neglect the creative efforts of our designers. The 1984 Trademark Counterfeiting Act has helped in the counterfeiting of component problems. The Semi-Conductor Chip Act recognized that the law needed to be expanded to protect this specialized product not otherwise adequately protected by U.S. intellectual property laws. Our system for protecting industrial designs needs redesigning itself.

The point of all of this is - the American public and American industry are being harmed, not just in the automotive field, but in communication, agricultural equipment, furniture

fields and many more industrial areas. This bill should help us eliminate that harm and we support it.

I would like to thank the Chairman and members of this committee for allowing me to present MVMA's views, and we urge the enactment of S. 791 to prevent the theft of creative efforts.

MOTOR VEHICLE MANUFACTURERS ASSOCIATION
of the United States, Inc.

1620 EYE STREET, N.W., SUITE 1000 • WASHINGTON, D.C. 20006 • AREA 202-862-3900

DONALD D. LENNOX, *Chairman*
THOMAS H. HANNA, *President and Chief Executive Officer*

April 15, 1987

The Honorable Dennis DeConcini
Chairman, Subcommittee on Patents
Copyrights and Trademarks
United States Senate
Committee on the Judiciary
Washington, D.C. 20510-6275

Dear Senator DeConcini:

Thank you for the opportunity for Mr. Gary L. Newtson, Chief Patent Counsel, Chrysler Corporation to testify on behalf of the Motor Vehicle Manufacturers Association on S. 791, the "Industrial Innovation and Technology Act." I would like to take this opportunity to submit supplemental comments for the record.

It is important to focus initially on the broader picture. Almost everyone seems to agree that American manufacturers are entitled to, and need intellectual property right protection to be competitive. Even the insurance companies represented at the hearing appear to support this concept -- all they want is to deprive the automobile industry of the protection afforded by S. 791. We hope you will agree that the exclusion of this single industry would be unfair.

There are a number of comments made by the second panel at the hearing which I would like to address. The first is the continued and misleading reference by the insurance companies that testified to so-called "monopoly control" by auto manufacturers of the products they design and engineer. The auto manufacturers simply seek a minimal degree of protection from the theft of their intellectual property -- the expensive and extensive design, engineering and development incorporated into crash parts. The theft of this property through the copying of crash parts is not, in our opinion, fair competition, but rather a bald attempt to "free ride" on the innovative efforts of others. Fair competition would not be injured by S. 791.

Second, the insurance companies that testified claim that copied sheet metal parts are not inferior to OEM parts in quality. Even assuming that this is true as to some parts, time after time, fit and finish tests and salt spray tests illustrate that it is largely not true of much copied sheet metal. These tests were not developed simply to demonstrate the inferiority of copied sheet metal, but rather are tests used by the auto manu-

facturers to test the quality of their production parts.* The quality issue is a real one to the consumers. The motor vehicle industry has received numerous complaints which document this consumer concern.

Beyond the demonstrated difference in quality shown at the time of the hearing, we wish to make clear that while it is possible that some of the aftermarket crash parts do exhibit a reasonable level of quality, we are aware of no system in place, either in the insurance industry or by the aftermarket suppliers, which will assure any consistency in such quality. As a matter of fact, an officer of Keystone, a supplier favored by the insurance industry, has stated that Keystone simply cannot insure that the parts they sell are the same as OEM. The point is that the quality of OEM parts is consistent -- the consumer gets an equal replacement. The consumer who receives an OEM part does not have to bear the risks brought about by the forced acceptance of a lesser quality part produced by an unknown manufacturer.

A third point relates to the assertion that copied sheet metal is generating savings of hundreds of millions of dollars for insurance companies. While that may be true, available evidence suggests that such "savings" are not being passed on to consumers who receive imitation parts. Best Reports, a leading periodical in the insurance field, estimates that collision insurance rates increased 36.8% between 1978 thru 1984. In short, what some insurance companies seek is special interest legislation for their own benefit.

The quality and "free ride" issues also are relevant to the "savings" claim. Obviously, imitators have lower costs; they free ride on the design and development costs of domestic OEMs and then provide lower quality parts. The consumer who is stuck with the cheap part gets no bargain, even if the evidence supports a savings claim. Moreover, automobile manufacturers loses in at least three ways. It is deprived of the benefits of its investment in design, development and engineering; the consumer who receives an inferior copy becomes dissatisfied with the original manufacturer's product; and the manufacturer, faced with the necessity to service the automobiles it has built, is left with the obligation of stocking and supplying the slower moving parts that the free riders find unprofitable, even in the face of their unfair advantage.

Fourth, a question was raised as to whether S. 791 will encourage increased investment. While investment in the design and development of the exterior configuration of our vehicles would not necessarily increase, this is not the point. The point is whether manufacturers have a right to benefit from the intellectual property investment in product design, an investment which runs into the hundreds of millions of dollars.

Pursuant to your request, we have investigated the investment costs which might properly be apportioned to certain crash parts. The costs are those incurred in the design (including advance design, clay modeling, digitizing surfaces, etc.), engineering, and tooling of body parts. Taking as an example a fender, the total investment can run from $4.5 million per fender, up to almost $10 million, depending on the part, the vehicle, and the manufacturer. Investments of varying magnitudes, some as high as the fender investment, and others exceeding that, are made in the many other body parts that are designed for a particular vehicle. This design, development and engineering occurs in the United States and essentially all of these parts are manufactured in plants in this country and Canada.

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* The results of the NAII corrosion testing of a fender purchased from a dealer clearly is not representative of industry tests. GM is attempting to learn the details of the testing and more about the products as well.

As to the issue of safety, the insurance companies' correct assertion that the performance of the parts in question is not regulated by the Federal Motor Vehicle Safety Standards begs the issue. The standards are performance-oriented rather than component-oriented. The parts provided by the original equipment manufacturer are identical to the parts which form a part of the vehicle which met the standards. Since the aftermarket parts are different from the the OEM parts, the compliance of vehicles repaired with those parts to the standards must be in question.

The second panel also indicated their feeling that there is no trade issue associated with the present legislation. Without dealing in speculation as to the possible future movement of aftermarket sheet metal sources from offshore into this country, it is sufficient to say that at present the level of business (about $200,000,000) conducted by the aftermarket sheet metal suppliers may represent a loss of about 6,000 American jobs in a monetary outflow to the offshore producers as well.

The second panel mischaracterized the treatment of crash parts afforded manufacturers by our major trading partners. Industrial design protection appears to be available in most nations for crash parts such as fenders, hoods and the like. Germany, specifically, has decided that the design of separate body components may be registered. In England, on the other hand, the House of Lords made a decision exempting such parts from British copyright law. In considering the parallels between that decision and our own national situation, however, the British decision in British Leyland Motor Corporation v. Armstrong Patents Company must be read in the light of the differences between the proposed legislation and the British copyright law. The latter is of much broader scope than the present legislation. To cite but a few differences, fixing the design in the physical embodiment is not required; the term of protection is substantially longer; and notice is not required. S. 791 with all its safeguards is not at all directly comparable to the British situation.

The Automotive Service Industry Association, in its March 24 letter to you, states its understanding the S. 791 would cover all parts of a vehicle. As we understand the bill, it would not be available for parts whose design is dictated solely by the function they perform. Thus, parts like spark plugs, carburetors, mufflers, glass, and the like are not affected by the subject legislation.

Finally, we reiterate the importance of recognizing the real nature of the controversy engendered by the insurance companies that testified against S. 791. This legislation is by no means unique; our major trading partners provide design protection to their manufacturers which provide them with a competitive advantage. It is a sensible way to provide appropriate protection to the efforts, investments, and innovation of all manufacturers. Some insurance companies are attempting to exclude one industry from the benefits which S. 791 accords other manufacturers. They seek to convert this bill into special interest legislation which will legitimatize the transfer of the benefits of the automobile manufacturer's investment to producers of copied parts, and perhaps insurance companies as well. The constitutional argument they assert is specious and there is no jurisdiction for their approach to this legislation.

Thank you again for the opportunity to testify before your subcommittee and present the views of the Motor Vehicle Manufacturers Association.

Very truly yours,

William H. Crabtree

William H. Crabtree
Vice President and General Counsel

Senator DECONCINI. Thank you, Mr. Newtson.

Most of you have commented on the increased flow of cheaper imitation goods that are hampering your competitiveness and reducing jobs in this country. Are most of these imitations coming from overseas, or do you know? And do you have an estimate on how many jobs your particular businesses are losing as a result of these commercial copiers? Would you care to comment on that?

Mr. WOODRING. Up until several months ago, I was head of New Product Development and Product Design for J. C. Penney Company. J. C. Penney does $15 billion a year and has 285,000 employees. Roughly 50 percent of J. C. Penney's products that they sell in this country are imports; that does not necessarily mean that they are infringing in any way. Most of them are good products, but I would estimate that 10 percent of what that company imports are not what they think—they're not getting what they're buying. In other words, they're getting a knockoff of what they contracted for.

Senator DECONCINI. You don't have any idea of what that amounts to in jobs in the United States?

Mr. Thompson, what about your industry or your area? Do you know if most of these counterfeit parts are from overseas?

Mr. THOMPSON. Mr. Chairman, it appears to us that they are about equally distributed between overseas imitations and those made domestically, in the United States. And in particular, we've identified Italy, with subsidized steel; and Spain and countries like that, also in the Far East. But we've also experienced problems here at home. The Los Angeles area seems to have an overseas outlook to it and engages in quite a bit of product imitation.

Senator DECONCINI. Have you estimated how many jobs that might amount to if you made those parts, or if they were made here?

Mr. THOMPSON. Senator, we don't have that documentation. We discover these problems as individual infringements and then proceed against them one-at-a-time, but we will try to quantify that better for you and get back to you.

Senator DECONCINI. Would you do that? It would be very helpful.

[The information, subsequently supplied for the record, follows:]

Mr. Chairman, based on 1986 Caterpillar sales data regarding parts likely to be covered by S. 791, we estimate that almost $170 million per year in such sales are jeopardized by look-alike competition. These lost sales would translate into approximately 1400 Caterpillar and related supplier jobs jeopardized by such unfair competition.

Senator DECONCINI. Mr. Richardson?

Mr. RICHARDSON. I do not have that figure exactly either, but we do know that since 1979 in the furniture industry we've had a 500-percent increase in the amount of imported furniture. A good deal of that, I would consider to be knockoff related.

Senator DECONCINI. Do you have any idea, when you say "a good deal"?

Mr. RICHARDSON. No, sir, I don't.

Senator DECONCINI. Mr. Newtson?

Mr. NEWTSON. I have some figures that were provided me that I understand came from the U.S. Customs. They estimated that there were about $30 million in crash parts imported into the United States last year.

Senator DECONCINI. You said $30 million?

Mr. NEWTSON. Yes, $30 million, $27 million of which came from Taiwan. That would be for the industry, I believe, and I would make my own estimate that it has cost hundreds of jobs.

Senator DECONCINI. In your industry, how do you police your dealers to not buy some of those crash parts?

Mr. NEWTSON. How do we please them?

Senator DECONCINI. How do you police them, so that they buy just your parts?

Mr. NEWTSON. We remind them that the warranty on the car that is extended for 5 years—or 7 years, now—provides for the replacement of our parts if they fail, but only our parts.

Senator DECONCINI. That doesn't include an automobile crash where they have to replace the fender because of an accident, right?

Mr. NEWTSON. No, no, it does not in that case. But we enforce it by providing the quality products for them and providing them the adequate amount to install that product. You will find that the auto body shops, using the imitation parts, take longer to retrofit them to a current vehicle because they have to modify the inferior fender so that it will fit in the same spot. And the repair shops don't like to do that. I believe most of our dealers feel they are adequately compensated. I know that the nonaffiliated repair shops find it very difficult to use the imported parts.

Senator DECONCINI. Mr. Thompson, your company is a major exporter. Could you tell us how this bill would affect your exports?

Mr. THOMPSON. I think it would improve them, Mr. Chairman. We sell approximately 50 percent of our products and parts in the United States and the other half overseas. Both we and our competitors tend to look at the world market in a monolithic way. I'm sure that if we had some effective design protection in the United States that our competitors, instead of being so prone to copy us, would create their own independent designs for replacement parts. And therefore the marketplace would better recognize the product differentiation. We think this would lead to increased penetration, both at home and overseas.

Senator DECONCINI. Mr. Richardson, the example that you mentioned of the chair that you designed, did you attempt to get a design patent on that?

Mr. RICHARDSON. Not that particular chair, but in previous years I have approached patent attorneys in the hopes of getting design patents on some of my designs. They have said, in essence, don't waste your money or your time.

Senator DECONCINI. So you have not ever tried to get a design patent?

Mr. RICHARDSON. I have not gone through all the motions, no, but I have talked to patent attorneys on several designs.

Senator DECONCINI. Their advice is that it takes too long, and forget it, just go ahead and get what you can out of it?

Mr. RICHARDSON. It takes too long, and the odds are not that great.

Senator DECONCINI. In your example where your unit number reduced so substantially, did you also bring the price down?

Mr. RICHARDSON. Eventually we were forced to because of competitive reasons.

Senator DECONCINI. Senator Hatch has a lengthy question. I think I'll direct it to you, Mr. Newtson. His concern is whether automobile replacement parts would be reasonably priced in the absence of competition, and he wants to give one example. He has here the Mazda booklet, and by way of this demonstration that foreign automakers are affected by replacement parts competition just as directly as domestic producers. This booklet announces that Mazda intends "to make a bold move against imitation crash parts." One of the steps they intend to take is found in bold print on a latter page which says, "We've slashed the prices of the most commonly needed crash parts." This seems to make his point most directly, that Mazda feels that the way to respond to competition is by reducing prices.

This brochure goes on to say, "New slashed prices on genuine Mazda crash parts—nobody has to settle for non-spec imitations." This is followed by a chart showing that parts have been slashed between 25 and 53 percent. This makes the point that competition in the crash part market has reduced prices for the consumers; at the same time, you argue that your replacement parts are a better quality. If that's the case, why can't you compete in the market on the basis that your parts are better? You hear radio ads about Mr. Goodwrench—I know that's another company—but why do you need the monopoly that this bill would provide without some alterations? Are you not able to compete in the crash part market on the basis of your own quality?

Mr. NEWTSON. Yes, of course, we'd be able to compete on the basis of our own quality if we were competing against products that were of a like quality. The current products being put out there with which we have to compete are inferior. We do not want our vehicles out in the field being driven around with inferior body parts on them, which might discourage the American public from buying our new products. We believe that the fenders that we manufacture are of a higher quality, and we have slashed our prices in certain areas too to be competitive because we want the vehicles to be bearing original equipment parts.

The truth of the matter is, this argument that was just presented to me neglects the fact that our intellectual property was stolen to make the copied parts, and it is forgotten that this misappropriation of intellectual property should be compensated.

Senator DECONCINI. What about the argument where you have an older automobile, or an older Caterpillar, that has half of its life expended; and then it's brought in for a new fender, and you put on a fender that has a full life. What's the argument of having a half-life fender or some parts that are not as current or as good as brandnew when you are just repairing for a partial life that's left in that product?

Mr. NEWTSON. When we prepare our aftermarket fenders, they are made off of the original stamping dies. We don't know whether it's going to be put on a vehicle that has 1 year on it, 6 months on it, or is 4 years old when it's put on the car.

Senator DECONCINI. Well, from the consumer's standpoint, if they are only going to keep the car for 2 years or a year but they

want a new fender put on, the argument is that they should be able to get a makeshift fender and put it on, if not one that is stolen in intellectual property.

Mr. NEWTSON. We have no problem if they go to a junkyard and get a fender off of an original Chrysler vehicle and use that as a replacement. That's still an original equipment fender and it will fit. That's not a problem at all to us.

Senator DECONCINI. But if they buy a fender from someone?

Mr. NEWTSON. We refer to them as "Taiwan Tom" fenders.

Senator DECONCINI. "Taiwan Tom" fenders?

Mr. NEWTSON. Yes. If they want to put on a fender that's going to rust out quickly——

Senator DECONCINI. Well, obviously, your example shows that they don't do well. We don't have that kind of salt spray in Arizona but we have a lot of heat.

Mr. NEWTSON. Yes, that's correct.

Senator DECONCINI. Thank you, gentlemen, very much. It's very, very helpful; we appreciate your testimony and your exhibits.

Our next panel will be Mr. Jean Hiestand, general counsel, State Farm Mutual Automobile Insurance; Mr. August Alegi, vice president and deputy general counsel of GEICO; and Mr. Malcolm, J. Romano, patent counsel and assistant secretary, Lear Siegler, Inc.

Mr. HIESTAND. Mr. Chairman, we have with us Mr. Jim Fitzpatrick, Washington counsel.

Senator DECONCINI. Fitzpatrick?

Mr. HIESTAND. Fitzpatrick, yes.

Senator DECONCINI. Very good. We're glad to have you.

Gentlemen, let me indicate that we would ask that you summarize your statements and keep them to 5 minutes or less. We will put in the record any full statements that you care to put in, and we'll start with Mr. Hiestand.

STATEMENT OF JEAN C. HIESTAND, GENERAL COUNSEL, STATE FARM MUTUAL AUTOMOBILE INSURANCE, BLOOMINGTON, IL, ACCOMPANIED BY JAMES FITZPATRICK, WASHINGTON COUNSEL, STATE FARM MUTUAL AUTOMOBILE INSURANCE

Mr. HIESTAND. Mr. Chairman, thank you for the opportunity to testify on the enormously adverse and anticompetitive implications of S. 791. I am Jean Hiestand, vice president and general counsel of the State Farm Companies.

I am confident that our views on S. 791 enjoy the support of a broad range of all insurers. Significantly, the National Association of Insurance Commissioners, representing the 50 State insurance commissioners, has filed a statement today urging that this bill be amended to exclude crash parts——

Senator DECONCINI. Could you pull that microphone a little bit closer to you, Mr. Hiestand? Thank you. Just pull it up; it will come closer to you.

Mr. HIESTAND. OK.

Senator DECONCINI. That's good. Thank you.

Mr. HIESTAND. I was mentioning the statement filed by Commissioner Muhl on behalf of the NAIC urging that this bill be amend-

ed to exclude crash parts so that competition in the market can be preserved.

State Farm is the largest property and casualty insurance company in the Nation, insuring some 27 million automobiles. It is undoubtedly the largest single purchaser of automobile crash parts, metal, plastic, and glass components such as fenders, hoods, doors and windshields used in the repair of damaged automobiles.

Like other insurers, State Farm has for many years supported a variety of cost containment measures. We've been a staunch proponent of auto safety standards, including passive restraints and bumper standards, and medical cost containment as part of our continuing effort to keep insurance coverage at affordable prices by minimizing costs.

In this same vein, we have been engaged for almost two decades in efforts to bring competition to the new crash parts market which, until recently, has been under the near-monopoly control of automobile manufacturers and in which monopoly pricing has consequently been manifest. These efforts were frustrated and unproductive until recent years. For the first time, emerging competition has brought sharply lower prices to this market.

The ultimate potential benefit of continuing this price competition is staggering. We believe that literally hundreds of millions of dollars in automobile repair costs are at stake; indeed, that is all that is at stake for the automakers and for the consumers in S. 791. Not quality, not safety, not trade barriers; just plain old monopoly profits and monopoly prices. But, perhaps unwittingly, this competition would be strangled by S. 791 unless the bill is appropriately modified.

There is simply no justification for returning this newly competitive market to the bad old days of monopoly pricing. Rather, Congress should recognize that a purchaser of an automobile has a right to have his or her own car, when damaged, repaired with quality parts from any available source. The consumer should not be required to go back to the car manufacturer and buy sky-high-priced replacement parts when lower priced competitive parts of equal or better quality, and every bit as safe, are available.

There may well be some justification for industrial design copyright protection as contemplated by S. 791; that debate over the broad contours of the bill is for others. We expect a lively discussion over the merits of a bill which would alter a large segment of competitive enterprise in our economy and would limit consumer choice in the marketplace. Whatever conclusions that debate may produce, there is a vast difference, we think, between protecting original designs and protecting replacement or repair components.

We thus strongly oppose the bill as it is presently drafted, and specifically as it applies to the crash parts market.

It is clear that the quality issue is important to the automakers. I want to underscore that quality is likewise of central concern to State Farm. First and foremost, we will not knowingly allow parts of inferior quality to be used on the cars we insure. We have to stand behind the repair process, and we do.

It is also clear that there are parts of varying quality in the market today. Some original equipment parts may be superior to competitive parts; on the other hand, our tests have found that

some imported competitive parts are superior to original equipment parts. We have here for the committee's inspection two fenders of a popular, high-volume car; one from the original equipment manufacturer, and one from a competitive manufacturer. I will leave it for you to judge the relative quality of the two fenders. However, in our opinion the competitive part on our right is superior after 750 hours of corrosion testing to the original manufacturer's fender on the left. I should add that this superiority began to show up shortly before the 500-hour point was reached.

We believe that the quality issue should be sorted out in the marketplace, as E. G. Marshall and Mr. Goodwrench and Mazda seem to be saying. We believe this new competition is improving quality as well as holding down prices.

We would be happy to discuss with the auto manufacturers ways to establish quality standards that would apply both to original equipment parts and to competitive parts to help guide purchasing decisions in the aftermarket, but we would most strongly object to the elimination of this competition entirely and to return the competitive aftermarket to a near-monopoly controlled by the auto manufacturers.

For these reasons, we support an exclusion of automobile crash parts from the bill.

Thank you.

[Submissions of Mr. Hiestand follow:]

STATEMENT

OF

JEAN C. HIESTAND

VICE PRESIDENT AND GENERAL COUNSEL

STATE FARM MUTUAL AUTOMOBILE INSURANCE COMPANY

SUMMARY

As part of its continuing effort to keep insurance coverage at affordable prices by minimizing costs, State Farm has been engaged for almost two decades in efforts to encourage competition in new "crash parts" -- components, such as fenders, hoods, doors and windshields, used in the repair or damaged automobiles. Until recently, the manufacture and supply of these parts have been under the near-monopoly control of automobile manufacturers. Now for the first time, emerging competition has brought sharply lower prices to this market.

However, the Senate now has before it legislation -- S. 791, the industrial design protection bill -- that would strangle this new competition and return the market to its monopoly structure by allowing auto manufacturers to obtain copyright protection on replacement parts as simple as a fender, door or trunk lid. State Farm opposes this legislation unless it is amended in such a way as to exclude auto crash parts from its coverage.

The ultimate potential benefit of continuing price competition in the crash parts market is staggering. Literally hundreds of millions of dollars in automobile repair costs are at stake here. Indeed, that is all that is at stake for the auto makers and for consumers in S. 791 -- not quality, not safety, not trade barriers -- just plain old monopoly profits and monopoly prices.

The emergence of new competition for even a limited number of crash parts has had a significant impact. Between 1976 and 1983, before competitors entered the market, the price of crash parts increased at a rate of around 11 percent above inflation. By contrast, between 1984 and 1985, the price of the most frequently damaged crash parts, as measured by State Farm, dropped for the first time in a decade, at a time when the Consumer Price Index was still increasing.

For instance, in 1983, a Dodge Aries replacement fender cost $221. A competitive fender was introduced into the U.S. market, and, by 1986, competitors were offering this fender for between $65 and $77. Chrysler's price fell to $87 -- less than half the original price.

As a further illustration, the table below shows the drastic impact of this competition in the crash parts market. The left-hand columns trace the sharp decreases in auto manufacturers' prices when, for the first time, competitive parts were introduced into the market. The two right-hand columns show current examples of competitors' prices for the same parts.

	AUTO MANUFACTURERS' PRICES				COMPETITORS' PRICES	
	1983	1984	1985	1986	A 1986	B 1986
OMNI (1983 fender)	$140	76	76	76	$67	65
COROLLA (1981 fender)	117	117	79	61	71	59
ARIES (1981 fender)	221	180	87	87	77	65

By contrast, where there is no competition, there is this unhappy illustration:

CAVALIER (1982-84 fender)	151	156	163	150	N/A	N/A

There is simply no justification for returning this newly competitive market to the bad old days of monopoly pricing. Rather, Congress should recognize that a purchaser of an automobile has a right to have his or her own car, when damaged, repaired with quality parts from any available source. The consumer should not be required to go back to the car manufacturer and buy sky-high-priced replacement parts when lower-priced competitive parts -- of equal or better quality and every bit as safe -- are available.

For these reasons, we strongly urge Congress to exclude automobile crash parts from the scope of S. 791.

* * *

I. INTRODUCTION

Mr. Chairman, thank you for the opportunity to testify on the enormously adverse and anticompetitive implications of S. 791. My name is Jean C. Hiestand and I am Vice President and General Counsel of State Farm Insurance Companies. I am confident that our views on S. 791 enjoy the support of the broad range of auto insurers. Significantly, the National Association of Insurance Commissioners, representing the 50 state insurance commissioners, has filed a statement today urging that this bill be amended to exclude crash parts so that competition in that market can be preserved.

State Farm is the largest property and casualty insurance company in the nation, insuring some 27 million automobiles. It is undoubtedly the largest single "purchaser" of automobile "crash parts"[1] -- metal, plastic and glass components, such as fenders, hoods, doors and windshields, used in the repair of damaged automobiles.

Like other insurers, State Farm has for many years supported a variety of cost containment measures.

[1] "Crash parts" are those metal, plastic and glass components, such as fenders, hoods, doors and windshields, that are used in the repair of damaged automobiles.

We have been a staunch proponent of auto safety standards, including passive restraints and bumper standards, and medical cost containment measures, as part of our continuing effort to keep insurance coverage at affordable prices by minimizing costs.

In this same vein, we have been engaged for almost two decades in efforts to bring competition to the new crash parts market, which until recently has been under the near-monopoly control of automobile manufacturers and in which monopoly pricing has consequently been manifest. These efforts were frustrated and unproductive until recent years; for the first time, emerging competition has brought sharply lower prices to this market.

The ultimate potential benefit of continuing this price competition is staggering: we believe that literally hundreds of millions of dollars in automobile repair costs are at stake. Indeed, that is all that is at stake for the auto makers and for consumers in S. 791 -- not quality, not safety, not trade barriers -- just plain old monopoly profits and monopoly prices. But, perhaps unwittingly, this competition would be strangled by S. 791, unless the bill is appropriately modified.

There is simply no justification for returning this newly-competitive market to the bad old days of monopoly pricing. Rather, Congress should recognize that a purchaser of an automobile has a right to have his or her own car, when damaged, repaired with quality parts from any available source. The consumer should not be required to go back to the car manufacturer and buy sky-high-priced replacement parts when lower-priced competitive parts -- of equal or better quality and every bit as safe -- are available.

There may well be some justification for industrial design copyright protection as contemplated by S. 791; that debate over the broad contours of the

bill is for others. We expect a lively discussion over the merits of the bill which would alter a large segment of competitive enterprise in our economy and would limit consumer choice in the marketplace. Whatever conclusions that debate may produce, there is a vast difference, we think, between protecting original designs and protecting replacement or repair components. We thus strongly oppose the bill as it is presently drafted and, specifically, as it applies to the crash parts market.

It is clear that the quality issue is important to the auto makers. I want to underscore that quality is likewise of central concern to State Farm. First and foremost, we will not, knowingly, allow parts of inferior quality to be used on the cars we insure. We have to stand behind the repair process and we do.

It is also clear that there are parts of varying quality in the market today. Some original equipment parts may be superior to competitive parts. On the other hand, our tests have found that some imported competitive parts are <u>superior</u> to original equipment parts. We have here for the Committee's inspection two fenders of a popular, high-volume car, one from the original equipment manufacturer and one from a competitive manufacturer. I will leave it to you to judge the relative quality of the two fenders; however, in our opinion, the competitive part is superior, after 750 hours of corrosion testing, to the original manufacturer's fender. I should add that this superiority began to show up shortly before the 500-hour point was reached.

We believe that the quality issue should be sorted out in the marketplace. However, we would be happy to discuss with the auto manufacturers ways to establish quality standards that would apply <u>both</u> to

original equipment parts and competitive parts to help guide purchasing decisions in the aftermarket.

But we would most strongly object to the elimination of this competition entirely, and to return the competitive aftermarket to a near-monopoly controlled by the auto manufacturers.

For these reasons we support an exclusion of automobile crash parts from the bill.

II. THE EFFECT OF THE EMERGENCE OF THE COMPETITIVE CRASH PARTS MARKET

Historically, automobile manufacturers have had a monopoly in both the manufacture and distribution of new crash parts used in the repair of automotive vehicles. For example, until the early 1980s, the only way you could buy a new fender for a General Motors or Ford or Toyota car was to buy one manufactured by GM, Ford or Toyota and sold through their respective dealers. Because there was no competition either in the manufacture or distribution of these crash parts, an auto company had the power to keep -- and did keep -- prices artificially high; as the Federal Trade Commission found, it had "nearly unfettered pricing discretion"[2] in the $8 billion per year new crash parts market. As a result, the price of crash parts rose at a sharply steeper rate than the price of other auto parts, such as spark plugs, oil filters and batteries, where there has long been competition.

In the early 1980s, all this changed. Competitors were able to enter the crash parts market for the first time. The development of computer-based design technology and the availability of plastic tool and die equipment were significant contributing factors. In addition, automobile companies stretched out the time

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[2] See In the Matter of General Motors Corp., 99 F.T.C. 464, 584 (1982).

period between major automobile model style changes and there was greater styling overlap among various models of a given manufacturer, all of which meant a longer shelf life for repair parts. And, precisely because automobile manufacturers had artificially inflated prices, competitive manufacturers found that they could produce and sell crash parts well below the existing prices. By 1983, a number of distributors began offering crash parts in this country at a fraction of the price charged by the automobile manufacturers.

The emergence of this new competition for even a limited number of crash parts had a significant impact. Between 1976 and 1983, before competitors entered the market, the price of crash parts increased at a rate of around 11 percent above inflation. By contrast, between 1984 and 1985, the price of the most frequently damaged crash parts, as measured by the State Farm Index, dropped for the first time in a decade, at a time when the Consumer Price Index was still increasing. (See chart on next page.)

The drastic decline of the crash parts index was not caused solely by the lower prices of competitive crash parts. Indeed, in 1984, it is estimated that sale of competitive crash parts totaled around $300 million -- less than 5 percent of the total market. However, to meet this new competition, automobile manufacturers lowered their own prices. For instance, in 1983, a Dodge Aries replacement fender cost $221. A competitive fender was introduced into the U.S. market, and, by 1986, competitors were offering this fender for between $65 and $77. Chrysler's price fell to $87 -- less than half the original price. Since we can safely assume that these new Chrysler prices are still above cost, the effect of the earlier monopoly is abundantly clear.

As further illustration, the table below shows the drastic impact of this competition in the crash parts market. The left-hand columns trace the sharp decreases in auto manufacturers' prices when, for the first time, competitive parts were introduced into the market. The two right-hand columns show current examples of competitors' prices.

	AUTO MANUFACTURERS' PRICES				COMPETITORS' PRICES	
					A	B
	1983	1984	1985	1986	1986	1986
OMNI (1983 fender)	$140	76	76	76	$67	65
COROLLA (1981 fender)	117	117	79	61	71	59
ARIES (1981 fender)	221	180	87	87	77	65

By contrast, where there is no competition, there is this unhappy illustration:

CAVALIER (1982-84 fender)	151	156	163	150	--	--

A comparison of replacement doors also illustrates the significant impact of competition:

MANUFACTURER'S PRICES
WHEN THERE IS COMPETITION

	1977	1982	1986	1987
CHEVROLET PICKUP (1977 front door)	$182	295	209	209

MANUFACTURER'S PRICES
WHEN THERE IS NO COMPETITION

	1977	1982	1986	1987
CHEVROLET CAPRICE (1977 front door)	$267	487	630	671

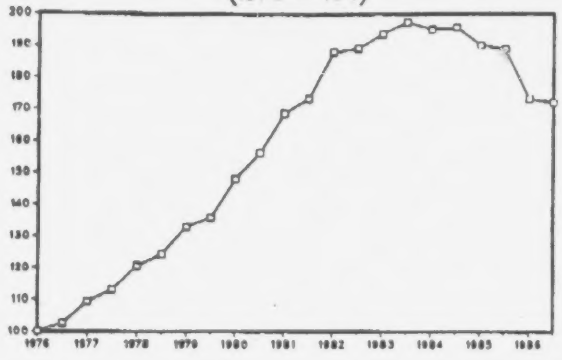
Gradually, the auto companies' monopoly in new crash parts has been replaced by natural, free-market competition. And, for the first time, prices on the State Farm Crash Parts Index for the most frequently-damaged parts have fallen -- more than 12 percent in the past two years. Unfortunately, there continues to be marked increases in prices of parts for which there is

STATE FARM CRASH PARTS INDEX

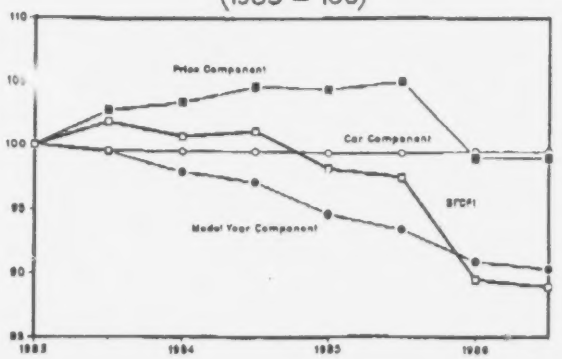
As of July 1, 1986

Illustrations of the SFCPI and Index movement relative to price, car, and model year components appear below.

SFCPI From January 1976 – Present
(1976 = 100)



Components of the SFCPI
(1983 = 100)



The State Farm Crash Parts Index reflects the change in price of frequently replaced crash parts on twenty of the most popular car models produced in each of seven model years. The twenty 1986 model year automobiles included in Index calculations are as follows:

Regal	Celebrity	Camaro	Chevette	Cutlass
Caprice	Tempo	Cavalier	Delta 88	Reliant
Mustang	Century	DeVille (FWD)	Escort	Accord
Thunderbird	Sentra	Cutlass Ciera	Corolla	Aries

RESEARCH DEPARTMENT STATE FARM MUTUAL AUTOMOBILE INSURANCE COMPANY

no competition. The long-term potential of this new price competition can be appreciated when one considers that, according to the Alliance of American Insurers, a 1985 Chevrolet Camaro, with a sticker price of $10,682, would cost more than $37,000 if it were built with the auto manufacturer's replacement parts.

We emphasize that the issue at hand is one of economics; it has nothing to do with auto safety. As has been made abundantly clearly by the independent Insurance Institute for Highway Safety:

> "The source of the cosmetic parts used to repair cars has little to do with the possibility of injury in these cars after they've been repaired. With but one exception [lamps, reflective devices and associated equipment], there are no federal standards for replacement parts because there's no reason to believe -- let alone assume -- that such parts significantly influence car crashworthiness."[3]

Nor is the issue at hand one of counterfeiting. Competitive parts are not falsely represented as automobile manufacturers' original parts. They are clearly marked and sold to repair shops as competitive parts.

Likewise, this is not a trade issue. Although the competition in sheet metal crash parts is presently coming from overseas, passage of this bill would also

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[3] See Advisory from Insurance Institute for Highway Safety (attached as Appendix A). See also Statement of Brian O'Neill, Insurance Institute for Highway Safety, Before the Oregon Department of Commerce (Nov. 24, 1986) (Appendix B).

The auto manufacturers have attempted to build a case against competitive parts based on the safety standards issue by relying on a test conducted by Toyota on a competitive auto hood. As Brian O'Neill of the IIHS noted in a letter to a state insurance commissioner, the test was not a federal compliance test and was conducted at a speed (35 mph) involving 36 percent more energy than the speed (30 mph) used in compliance tests -- "[I]t is not uncommon for new cars meeting all FMVSS [Federal Motor Vehicle Safety Standard] crash requirements at 30 mph to fail when tested at 35 mph because of the extra energy involved." O'Neill concluded, "Despite all of the allegations, I have not yet seen any evidence documenting examples of non-compliance because of the use of non-OEM [competitive] parts." See Letter from Brian O'Neill to Oregon State Insurance Commissioner (Nov. 26, 1986) (Appendix C).

destroy the opportunity for domestic manufacturers to enter the market. Currently, the Japanese auto manufacturers produce all of their parts, including crash parts, in Japan. We have reason to believe that, if competition is not destroyed by enactment of S. 791, parts for Japanese automobiles will be produced in the United States in the fairly near future. Further, S. 791 could well destroy existing domestic manufacturers who are producing trim, glass (windshields), and other replacement parts.

Finally, this is not a controversy over quality. As in any product market, quality may vary somewhat from manufacturer to manufacturer. No doubt, some competitive crash parts are lower in quality than manufacturers' original parts. But, in general, competitive crash parts are of comparable quality to auto manufacturers' parts and some are even better than the original parts. Many carry stronger warranties. In any event, this is an issue that will be, and should be, resolved in the marketplace. Moreover, consumer protection problems in connection with the crash parts market are currently under scrutiny by state insurance commissioners. Significantly, these state officials have counseled Congress not to intervene to eliminate the new crash parts competition.

III. THERE IS NO ECONOMIC JUSTIFICATION FOR TURNING THE COMPETITIVE CRASH PARTS MARKET INTO A MONOPOLY

Automobile manufacturers have understandably been anxious to re-establish their monopoly control over the crash parts market. The industrial design bill, if passed, would make their work easy.

If a monopoly is re-established by this bill, prices of crash parts will once again be artificially inflated. And, increased crash part prices will cause even those who will never be in an accident to suffer, because they will end up paying higher insurance

premiums; those who do have accidents (including those consumers who do not have auto collision insurance) will pay vastly more than necessary to have their cars fixed.

Moreover, the effect of the bill may well be felt even in those markets that have historically been competitive. Competitors who sell mufflers and auto glass, all domestically produced, could be put out of business, because the parts they sell would be subject to design protection. The thriving market in replacement parts -- batteries, spark plugs, oil filters and the like -- would be inhibited since designs in all these parts could be copyrighted and competition thereby stifled.

IV. THERE IS NO JUSTIFICATION UNDER ESTABLISHED INTELLECTUAL PROPERTY DOCTRINES TO GRANT A MONOPOLY IN THE CRASH PARTS MARKET

The constitutional power to grant monopolies for "Writings and Discoveries" is limited to that which is necessary to accomplish the expressed purpose of promoting "the Progress of Science and useful Arts."[4] The Supreme Court has noted that the constitutional limitation "was written against the backdrop of the practices . . . of the Crown in granting monopolies to court favorites in goods or businesses which had long before been enjoyed by the public"; Congress simply may not grant monopolistic protection that overreaches "the restraints imposed by the stated constitutional purpose."[5]

Rather, the very purpose of the statutory grant of copyright protection under the U.S. system is to benefit the public. Thus, the legislative history of

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[4] U.S. Const., art. I, § 8, cl. 8 ("To Promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries").

[5] See Graham v. John Deere Co., 383 U.S. 1, 5-6 (1966).

the Copyright Act of 1909 contains this explanation of the principle behind the constitutional limitation:

> "The enactment of copyright legislation by Congress under the terms of the Constitution is not based upon any natural right that the author has in his writings, for the Supreme Court has held that such rights as he has are purely statutory rights, but upon the ground that the welfare of the public will be served and progress of science and useful arts will be promoted by securing to authors for limited periods the exclusive rights to their writings. The Constitution . . . provides that Congress shall have the power to grant such rights if it thinks best. Not primarily for the benefit of the author, but primarily for the benefit of the public, such rights are given. Not that any particular class of citizens, however worthy, may benefit, but because the policy is believed to be for the benefit of the great body of people . . . ."[6]

In short, intellectual property protection should be granted in order to, and only to the extent that it will, benefit the public -- in contrast to the European systems which are based on designers' "moral rights" and which place designers' special interests before the public interest. At bottom, the Constitution demands that grants of protection promote creativity and thereby benefit the public.

In this vein, the 1909 legislative history set forth a useful test for new copyright protection proposals: "In enacting a copyright law Congress must consider . . . two questions: First, how much will the legislation stimulate the producer and so benefit the public, and second, how much will the monopoly granted be detrimental to the public?" The protection, if granted, must confer "a benefit upon the public that outweighs the evils of the temporary monopoly."[7] The industrial design bill, as applied to crash parts, fails this test.

As stated earlier, the Constitution contemplates

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[6] H.R. Rep. No. 2222, 60th Cong., 2d Sess. 7 (1909).

[7] Id.

that any grant of copyright monopoly will stimulate the producer and thereby benefit the public. But, there is already ample protection (and thus statutorily provided incentive) for ornamental features of useful articles under U.S. patent, copyright, trademark, misappropriation and unfair competition laws. Thus, designers have at least one and as many as five of the laws under which they may receive protection today.

Moreover, there is no evidence that there exists a dearth of creative activity in the design of automobiles that necessitates the granting of a monopoly over the crash parts market. Auto companies invest in design to support original equipment sales -- the car itself. There is no indication that recognizing competition in the aftermarket will be a disincentive to the auto companies to invest in design for new cars. New variations in the design of automobiles abound because there are already significant and sufficient incentives to invest in such designs -- to improve performance, attract customers, or reduce production costs.

Nor is there any evidence that there would be (or was prior to the introduction of competition) greater advancements in design under the monopoly power of auto manufacturers over the new crash parts market. In fact, the re-establishment of a monopoly may inhibit experimentation in the overall design of automobiles or result in changes in design purely for the sake of design protection -- sacrificing other important factors such as functional efficiency and safety.

On the other hand, the public would pay dearly if a monopoly is re-established. As indicated by the State Farm Crash Parts Index, the result would be unnecessarily sharp price increases and, we believe, the loss of hundreds of millions of dollars in artificially inflated repair bills.

V. THERE IS PRECEDENT IN INTELLECTUAL PROPERTY DOCTRINE FOR AN EXCLUSION OF CRASH PARTS FROM DESIGN PROTECTION

Intellectual property law is often shaped so as to accommodate the legitimate needs of users and consumers for public policy reasons. U.S. law is filled with such examples, but nowhere is it more clearly articulated with respect to the issue at hand -- repair parts -- than in the 1986 British Leyland Motor Corp. v. Armstrong Patents Co. decision from the highest tribunal in Great Britain. The case involved an automobile exhaust pipe which was subject to design protection under British law. The auto manufacturer that owned the design copyright sued to enjoin the manufacturer of a competitive exhaust pipe.

The House of Lords recognized the right that we believe is paramount here -- that car owners have "an inherent right to repair their cars in the most economical way possible and for that purpose to have access to a free market in spare parts." Auto manufacturers are "not entitled to derogate from or interfere with that right by asserting their copyright . . . against a person manufacturing parts solely for repair."

Lord Bridge framed the issues this way:

> "What the [auto] owner needs, if his right to repair is to be of value to him, is the freedom to acquire a previously manufactured replacement exhaust system in an unrestricted market. Here then we come to the heart of the issue, where there appears to be a clear conflict of legal rights, the car owner's right to repair on the one hand, the copyright owner's right, on the other hand, to use his copyright in such a way as to maintain a monopoly in the supply of spare parts. It may be novel; but seems to me to be an unavoidable issue for the law to decide which of the two rights should prevail over the other."

Lord Bridge held that a consumer's right to repair his car must prevail over the automobile manufacturer's copyright interests. Auto manufacturers have "already enjoyed the primary benefit which their copyright protects." To enforce the auto manufacturers'

copyright and to thereby maintain their monopolies in the supply of repair parts is "to detract from the [car] owners' rights and, at least potentially, the value of their cars."

A second member of the panel came to the same conclusion, finding that the copyright owner of the design must not have the authority to exercise his design "copyright powers in such a way as to prevent the car from functioning unless the owner of the car buys replacement parts from the copyright owner or his licensee."

This decision speaks directly to the argument that European systems provide precedent for a U.S. design bill. Even in Great Britain, where there is industrial design protection, design protection is not allowed to defeat the inherent right of a purchaser of an automobile to keep his car in repair and to turn to a competitive market for replacement parts.

IV. CONCLUSION

In a Federal Trade Commission inquiry of General Motors' practices in connection with the distribution of crash parts, the Administrative Law Judge found that "[a]ny manufacturer who cares to is free to make GM crash parts."[8] But, by pressing for passage of this bill, GM and the other auto manufacturers are attempting to remove that competitive freedom recognized by the FTC.

In his remarks when the bill was introduced, Senator Hatch cautioned that "[c]onsumers ought to continue to benefit from the extensive price competition that presently exists in the manufacture and sale of these crash parts," and that Congress must be "careful not to preempt an area of marketplace competition and turn it into a monopoly." Competition in the crash parts market can only be preserved by effectively excluding these parts from the scope of S. 791.

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[8] 99 F.T.C. at 498, 537.

Appendix A

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COSMETIC REPLACEMENT PARTS AND AUTO REPAIR PRACTICES

Number 1
January 1987

INSURANCE INSTITUTE FOR HIGHWAY SAFETY
HIGHWAY LOSS DATA INSTITUTE

Watergate 600
Washington, DC
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A new issue of particular concern to insurers is being discussed these days. It has to do with replacement parts and auto repair practices. In particular, some automakers are claiming that if repair shops use cosmetic body parts that aren't from original-equipment manufacturers the repaired vehicles might not meet federal motor vehicle safety standards.

The work of the Insurance Institute for Highway Safety involves finding effective ways to reduce the deaths and injuries occurring by the thousands every year in motor vehicle crashes. Because of this work, we at the Institute would oppose *any* practice designed to save money, including the use of certain crash parts, if the result of that practice were to increase the risk of human injury.

Here's the essential fact. The source of the cosmetic parts used to repair cars has little to do with the possibility of injury in these cars after they've been repaired. With but one exception, there are no federal standards for replacement parts because there's no reason to believe — let alone assume — that such parts significantly influence car crashworthiness.

One Example: Windshield Replacement

This doesn't mean a repaired car is always exactly the same as when it was new. In some instances, a repair could mean a car no longer meets federal safety requirements for new cars — but this could happen regardless of the source of the parts. For example, consider a crashed car in which the windshield has to be replaced. Federal Motor Vehicle Safety Standard (FMVSS) 212 specifies that a new-car windshield must retain at least 75 percent of the adhesion around its periphery in a 30 mph frontal barrier crash test. When a damaged car is fixed, we expect the repairman to prepare the mounting area thoroughly, use a high-quality adhesive, and spread the adhesive correctly, just as it was in the factory, for maximum coating and strength. However, the only way to find out for sure whether the replacement windshield retains its periphery — and thus meets the federal standard — would be to crash the car and that, of course, would not make sense. So we have no choice but to rely on the competence of repair personnel.

Cosmetic Parts Not Compliance-Related

Do replacement parts from sources other than the original manufacturers increase the chance that a repaired car will no longer meet federal new-car safety standards? The simple answer is that the replacement parts that might affect compliance already are covered by federal standards. Except for lights and related equipment, cosmetic body parts are extremely unlikely to affect compliance with federal standards.

Let's look at the relevant standards. Federal Motor Vehicle Safety Standard 108 specifies performance requirements for lights, reflective devices,

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The Insurance Institute for Highway Safety and the Highway Loss Data Institute are independent, nonprofit public service organizations that identify, develop, and evaluate ways to reduce the losses — deaths, injuries, and property damage — resulting from crashes on the nation's highways. Their work is wholly supported by the American Insurance Highway Safety Association, the American Insurance Highway Safety Alliance, the National Association of Independent Insurers Safety Association, and individual insurance companies.

and associated equipment on all new cars. It also covers replacement items, regardless of their source, so *all* such parts must meet this standard. The issue is one of compliance, not who supplies the parts, and the U.S. Department of Transportation has the authority to ensure compliance by recalling the parts that don't meet specified requirements. In a number of cases every year, the Department finds that some passenger car stop lights, tail lights, and/or hazard lights supplied by aftermarket manufacturers fail to meet FMVSS 108. Problems include, for example, incorrect wiring and flashers that don't meet durability requirements. The parts in question invariably are recalled following the federal compliance testing.

Compliance with these standards couldn't possibly be affected by cosmetic body parts.

The other aftermarket parts in question are cosmetic "soft" body parts such as fenders, quarterpanels, hoods, and trunk lids. These parts do *not* include basic structural items such as frame rails or vehicle subframes. While there are federal standards for lights and associated equipment, there are *none* that apply to cosmetic body parts, either as original equipment or replacement items.

Seventeen of the federal safety standards for new cars address aspects of passenger car crashworthiness. FMVSS 201, for example, is intended to protect occupants against injury from impacting interior components such as instrument panels. FMVSS 202 requires head restraints. And FMVSS 203 requires energy-absorbing steering columns. Compliance with these standards couldn't possibly be affected by cosmetic body parts.

Crash Test Performance Not Affected

Only in the case of standards that require crash tests is there a possibility that cosmetic body parts could influence compliance — and even in these cases the possibility is remote. For example, it's *extremely* unlikely that a cosmetic body part could influence the performance of any car in the crash tests specified in FMVSS 204 (rearward displacement of the steering column), 212 (windshield mounting), or 301 (fuel systems). It's possible, but still not likely, that a replacement hood could compromise performance with respect to FMVSS 219. But even if this were to happen, it's *not* the cosmetic soft body part but the hinges and attachment systems that are most likely to be the critical areas of performance — and these attachments aren't among the cosmetic parts at issue.

Variations in replacement parts produce, at the most, relatively small changes in crash performance.

The only other federal safety standard that involves a crash test is FMVSS 208. This standard requires cars with automatic restraints, but not those with manual safety belts, to meet injury criteria in a frontal barrier test. And one more time, it's extremely unlikely that a cosmetic body part such as a fender could alter performance enough that a repaired car would fail to meet this standard.

In the unlikely event that the use of a cosmetic replacement part did result in a car failing to meet the requirements of a federal safety standard, it would imply that the performance of the original equipment was marginal, too. This is because variations in replacement parts produce, at the most, relatively small changes in crash performance. After hearing testimony to this effect, Oregon's insurance commissioner dropped a proposal to require insurers to disclose that some replacement parts could affect compliance with federal motor vehicle safety standards.

The manufacturer should publish internal safety standards, if they exist, so competitive parts could be tested to those standards.

Any auto manufacturer who believes that the source of cosmetic body parts significantly influences car crashworthiness should ask, or even formally petition, the U.S. Department of Transportation to set standards for new *and* replacement parts. Or the manufacturer should publish internal safety standards, if they exist, so competitive parts could be tested to those standards. Either approach would resolve the issue far better than unnecessarily alarming the public about so-called imitation crash parts and trying to force a monopoly on the supply of such parts.

Appendix B

**Statement of Brian O'Neill, Insurance Institute for Highway Safety
Before the Oregon Department of Commerce, Insurance Division
Hearing on Proposed Rule, Aftermarket Parts in Repair of Autos
Salem, Oregon, November 24, 1986**

Thank you for the opportunity to appear today. I am Brian O'Neill, president of the Insurance Institute for Highway Safety, a nonprofit research and communications organization in Washington, DC, that identifies and develops ways to reduce motor vehicle crash losses. We are supported by the nation's property and casualty insurers.

The Institute is concerned with all aspects of highway loss reduction. Part of our work involves reducing the economic losses. But by far our most important work involves finding effective ways to reduce the human losses -- the deaths and injuries -- that occur by the thousands every year in highway crashes. Because our main concern is human injury, we at the Institute would oppose any practice designed to save money, including the use of certain replacement parts, if the result of that practice were to increase the risk of human injury.

I am here today to discuss auto repair practices in relation to new-car safety requirements established by the U.S. government. In particular, it has been claimed in national advertisements and elsewhere, including before this department, that if repair shops use car parts that aren't from original-equipment manufacturers the repaired vehicles might not meet certain federal motor vehicle safety standards. I am here to address these claims.

But first, let's briefly review the relevant standards. Federal motor vehicle safety standards specify minimum performance requirements for all new cars and for some equipment (see attachment). These standards are divided logically into three groups:

- The 100 series of standards is intended to reduce the chance of being in a collision. This group includes standards for brakes, lights, turn signals, and other such equipment.

- The 200 series of standards is intended to reduce the chance of injury once a crash has occurred. Included are requirements for seat belts, high-penetration-resistant windshields, and other injury-reducing designs.
- The 300 series is intended to reduce the consequences of a crash. Included are requirements to reduce fuel system leakage and thus avoid post-crash fires.

Manufacturers must certify that their cars meet or exceed all requirements of these motor vehicle safety standards, so all of us here today can be confident of a reasonable degree of new-car safety. But when a car has been in a crash and then repaired, I think none of us here would expect that car to be exactly as it was before the crash. It may be substantially the same, but the very fact of repairing a car alters it.

In some instances, the alteration may mean the car no longer meets federal safety requirements for new cars -- and this could happen regardless of the source of the parts. For example, consider a crashed car in which the windshield has to be replaced. Federal Motor Vehicle Safety Standard (FMVSS) 212 specifies that a new-car windshield must retain at least 75 percent of the adhesion around its periphery in a 30 mph frontal barrier crash test. When a damaged car is repaired, we expect the repairman to prepare the mounting area thoroughly, use a high-quality adhesive, and spread the adhesive correctly, just as it was in the factory, for maximum coating and strength. However, the only way to find out for sure whether the replacement windshield retains its periphery -- and thus meets the federal standard -- would be to crash the car and that, of course, wouldn't make sense. So we have no choice but to rely on the competence of repair personnel.

Once we understand that repaired cars aren't the same as new ones, the essential question for this hearing is whether the use of a part from a source other than the original-equipment manufacturer would increase the chance that a repaired car wouldn't meet federal new-car safety standards? The simple answer is that the replacement parts that might affect compliance already are covered by federal standards. Except for lights and related equipment, the cosmetic body parts that are the subject of this rulemaking are extremely unlikely to affect compliance with federal standards.

Let's look at the specific standards that relate to this issue. Federal Motor Vehicle Safety Standard 108 specifies performance requirements for lights, reflective devices, and associated equipment on all new cars. It also covers replacement items, regardless of their source, so all such parts must meet this standard. The issue is one of compliance, not who supplies the parts, and the U.S. Department of Transportation has the authority to ensure compliance by recalling the parts that don't meet specified requirements. In a number of cases during recent years, for example, the Department has found aftermarket stop lights, tail lights, and/or hazard lights that failed to meet FMVSS 108. Problems have included incorrect wiring and flashers that didn't meet durability requirements -- and the parts in question have been recalled following the federal compliance testing.

The other aftermarket parts in question at this hearing are cosmetic "soft" body parts such as fenders, quarterpanels, hoods, and trunk lids. These parts do not include basic structural items such as frame rails or vehicle subframes. While there are federal standards for lights and associated equipment, there are none that apply to cosmetic body parts, either as original equipment or replacement items.

Seventeen federal standards address aspects of passenger car crashworthiness. FMVSS 201, for example, is intended to protect occupants against injury from impacting interior components such as instrument panels. FMVSS 202 requires head restraints. And FMVSS 203 requires energy-absorbing steering columns. Compliance with these and most other federal safety standards couldn't possibly be affected by cosmetic body parts.

Only in the case of standards that require crash tests for compliance is there any possibility at all that cosmetic body parts could influence compliance -- and even in these cases the possibility is remote. The standards in question are these: FMVSS 204 limits the rearward displacement of the steering column into the occupant compartment in a frontal barrier test. FMVSS 212, which I spoke of earlier, addresses windshield mounting. FMVSS 219 regulates the intrusion of vehicle parts, usually the hood, through the windshield of a car in a frontal test. And FMVSS

301 covers the integrity and security of the fuel system.* Once again, it's extremely unlikely that a cosmetic body part could influence the performance of any car in the crash tests specified in FMVSS 204, 212, or 301. It's possible, but still not likely, that a replacement hood could compromise performance with respect to FMVSS 219. But if even this were to happen, it's not the hood itself but the hinges and attachment systems that are most likely to be the critical areas of performance -- and these attachments aren't among the cosmetic parts that are at issue.

The only other federal safety standard that involves a crash test is FMVSS 208. This standard requires cars with automatic restraints, but not those with manual safety belts, to meet injury criteria in a frontal barrier test. And one more time I must emphasize the extreme unlikelihood that a cosmetic body part such as a fender could alter performance enough that a repaired car would fail to meet this standard.

In the unlikely event that the use of a cosmetic replacement part did result in a car failing to meet the requirements of a federal safety standard, it would imply that the performance of the original equipment was marginal, too. This is because variations in replacement parts produce, at the most, relatively small changes in crash performance.

There are, as I noted earlier, no federal standards for cosmetic body parts because there's no reason to believe -- let alone assume -- that such parts significantly influence car crashworthiness. Any auto manufacturer who believes otherwise should ask, or even formally petition, the U.S. Department of Transportation to set standards for new and replacement parts. Or the manufacturer should publish internal safety standards, if they exist, so competitive parts could be tested to those standards. Either of these approaches would resolve the issue of this hearing far better than unnecessarily alarming the public about so-called imitation crash parts and trying to force a monopoly on the supply of such parts.

* A federal standard (Part 581) applies to bumpers, is intended to reduce economic losses in low-speed crashes, and includes crash test requirements for compliance. This standard incorporates the requirements previously included in FMVSS 215, but they are so weak (no damage to the car body but unlimited damage to the bumpers and attachments in 2-1/2 mph front- and rear-barrier crash tests) that Part 581 really doesn't qualify as a standard.

ATTACHMENT
SUMMARY DESCRIPTION, 49 CFR Part 571
FEDERAL MOTOR VEHICLE SAFETY STANDARDS
(Source: U.S. Dept. of Transportation)

STANDARD NO. 101 CONTROLS AND DISPLAYS -- Requires that essential controls be located within reach of the driver when the driver is restrained by a lap belt and upper torso restraint, and that certain controls be identified and illuminated when headlights are on.

STANDARD NO. 102 TRANSMISSION SHIFT LEVER SEQUENCE, STARTER INTERLOCK, AND TRANSMISSION BRAKING EFFECT -- Requires that the automatic transmission shift lever sequences have the neutral position placed between forward and reverse drive positions. Also required is an interlock to prevent starting the vehicle in reverse and forward drive positions and an engine-braking effect in one of the lower gears at vehicle speeds below 25 miles per hour.

STANDARD NO. 103 WINDSHIELD DEFROSTING AND DEFOGGING SYSTEMS -- Requires that all vehicles be equipped with windshield defrosters and defogging systems. Test conditions are also specified for passenger cars.

STANDARD NO. 104 WINDSHIELD WIPING AND WASHING SYSTEMS -- Specifies the windshield area to be wiped and requires high-performance washers with two or more speed power-driven systems.

STANDARD NO. 105 HYDRAULIC BRAKE SYSTEM -- Requires motor vehicles utilizing hydraulic brakes to have a split brake system, incorporating service and emergency features capable of stopping under certain specified conditions, a parking brake system capable of holding light vehicles on a 30 percent grade and heavy vehicles on a 20 percent grade, and a warning light system to indicate loss of pressure or low fluid level, antilock system failure, and parking brake application.

STANDARD NO. 106 BRAKE HOSES -- Establishes performance and labeling requirements for hydraulic, air, and vacuum brake hoses, brake hose assemblies, and brake hose fittings.

STANDARD NO. 107 REFLECTING SURFACES -- Requires that windshield wiper arms, inside windshield moldings, horn rings, and frames and brackets of inside rearview mirrors have matte surfaces to reduce hazardous reflection.

STANDARD NO. 108 LAMPS, REFLECTIVE DEVICES, AND ASSOCIATED EQUIPMENT -- Specifies requirements for lamps, reflective devices, and associated equipment for signaling. Side marker lights and reflectors, hazard warning and backup lights, and replacement equipment are included.

STANDARD NO. 109 NEW PNEUMATIC TIRES -- Specifies tire dimensions and laboratory test requirements for bead unseating resistance; strength, endurance, and high-speed performance; defines tire load rating; and specifies labeling requirements.

STANDARD NO. 110 TIRE SELECTION AND RIMS -- Specifies requirements for original equipment tire and rim selection.

STANDARD NO. 111 REARVIEW MIRRORS -- Specifies requirements for rearview mirrors. On passenger cars, requires an outside rearview mirror on the driver's side and, when the inside mirror does not provide a sufficient field of view, an additional outside mirror on the passenger side.

STANDARD NO. 112 HEADLAMP CONCEALMENT DEVICES -- Specifies that any fully opened headlamp concealment device shall remain fully opened whether either or both of the following occur: any loss of power to or within the device, any malfunction of wiring or electrical supply for controlling the concealment device.

STANDARD NO. 113 HOOD LATCH SYSTEMS -- Specifies requirements for a hood latch system for each hood. A front-opening hood which in any open position partially or completely obstructs a driver's forward view through the windshield must be provided with second latch position on the hood latch system or with a second hood latch system.

STANDARD NO. 114 THEFT PROTECTION -- Requires that each passenger car have a key-locking system that whenever the key is removed prevents normal activation of the car's engine and prevents either steering or self-mobility of the car, or both.

STANDARD NO. 115 VEHICLE IDENTIFICATION NUMBER -- Specifies requirements for the content and format of a permanently affixed number to facilitate identification of a vehicle.

STANDARD NO. 116 HYDRAULIC BRAKE FLUIDS -- Requires minimum physical characteristics for three grades of brake fluids (DOT 3, DOT 4, and DOT 5) and establishes labeling requirements.

STANDARD NO. 117 RETREADED PNEUMATIC TIRES -- Prohibits certain practices in the manufacture of retreaded tires which might weaken the completed tire. Certain labeling information is also required.

STANDARD NO. 118 POWER-OPERATED WINDOW SYSTEMS -- Requires that power-operated window systems be inoperable when ignition is in an off position or when key is removed.

STANDARD NO. 124 ACCELERATOR CONTROL SYSTEMS -- Establishes requirements for the return of a vehicle's throttle to the idle position when the driver removes his or her foot from the accelerator control or in the event of a breakage or disconnection in the accelerator control system.

STANDARD NO. 201 OCCUPANT PROTECTION IN INTERIOR IMPACT -- Specifies requirements for padded instrument panels, seat backs, sun visors, and armrests. Glove compartment doors are required to remain closed during a crash.

STANDARD NO. 202 HEAD RESTRAINTS -- Specifies requirements for head restraints to reduce the frequency and severity of neck injuries in rearend and other collisions.

STANDARD NO. 203 IMPACT PROTECTION FOR THE DRIVER FROM THE STEERING CONTROL SYSTEM -- Specifies requirements for minimizing chest, neck, and facial injuries by providing steering systems that yield forward, cushioning the impact of the driver's chest by absorbing much of his or her impact energy in front-end crashes.

STANDARD NO. 204 STEERING CONTROL REARWARD DISPLACEMENT -- Specifies requirements limiting the rearward displacement of the steering column into the passenger compartment to reduce the likelihood of chest, neck, or head injuries.

STANDARD NO. 205 GLAZING MATERIALS -- Specifies requirements for all glazing materials used in windshields, windows, and interior partitions of motor vehicles to reduce the likelihood of lacerations and minimize the possibility of occupants penetrating the windshield in collisions.

STANDARD NO. 206 DOOR LOCKS AND DOOR RETENTION COMPONENTS -- Requires locking systems and specifies load requirements for door latches and door hinge systems to minimize the probability of occupants being thrown from the vehicle as a result of forces encountered in impact.

STANDARD NO. 207 SEATING SYSTEMS -- Establishes requirements for seats, their attachment assemblies, and their installation, to minimize the possibility of failure as a result of forces acting on the seat during impact.

STANDARD NO. 208 OCCUPANT CRASH PROTECTION -- Specifies requirements for both active and passive crash protection systems.

STANDARD NO. 209 SEAT BELT ASSEMBLIES -- Specifies requirements for seat belt assemblies. The requirements apply to straps, webbing, or similar material, as well as to all necessary buckles and other fasteners and all hardware designed for installing the assembly in a motor vehicle, and to the installation, usage, and maintenance instructions for the assembly.

STANDARD NO. 210 SEAT BELT ASSEMBLY ANCHORAGES -- Specifies the requirements for seat belt assembly anchorages to ensure effective occupant restraint and to reduce the likelihood of failure in collisions.

STANDARD NO. 211 WHEEL NUTS, WHEEL DISCS, AND HUB CAPS -- Requires that "spinner" hub caps and other winged projections (functional and nonfunctional) be removed from wheel nuts, discs, and hub caps to eliminate a potential hazard to pedestrians and cyclists.

STANDARD NO. 212 WINDSHIELD MOUNTING -- Requires each windshield mounting to be anchored in place and retain one of two specified percentages of its periphery in a crash situation to keep vehicle occupants within the passenger compartment.

STANDARD NO. 214 SIDE DOOR STRENGTH -- Specifies requirements for crush resistance levels in side doors of passenger cars to minimize the safety hazard caused by intrusion into the passenger compartment in a side impact accident.

STANDARD NO. 215 (Superseded by PART 581 on 9-1-78).

STANDARD NO. 216 ROOF CRUSH RESISTANCE -- Sets minimum strength requirements for passenger car roofs to reduce the likelihood of roof collapse in a rollover accident. Provides an alternative to conformity with the rollover tests of Standard No. 208.

STANDARD NO. 219 WINDSHIELD ZONE INTRUSION -- Regulates the intrusion of vehicle parts from outside the occupant compartment into a defined zone in front of the windshield during a frontal barrier crash test.

STANDARD NO. 301 FUEL SYSTEM INTEGRITY -- Specifies requirements for the integrity and security of the entire fuel system, including the fuel tanks, fuel pump, carburetor, emission controls, lines, and connections in severe front, rear, or lateral barrier impact crash tests.

STANDARD NO. 302 FLAMMABILITY OF INTERIOR MATERIALS -- Specifies burn resistance requirements for materials used in the occupant compartment of motor vehicles in order to reduce deaths and injuries caused by vehicle fires.

Appendix C

INSURANCE
INSTITUTE
FOR
HIGHWAY
SAFETY

November 26, 1986

Josephine M. Driscoll, CPIW
Insurance Commissioner
Department of Commerce
Insurance Division
Commerce Building
158 12th Street, N.E.
Salem, Oregon 97310

Dear Commissioner Driscoll:

Thank you for the opportunity to appear at the hearing of November 24 concerning the use of "aftermarket" parts in the repair of damaged automobiles.

Unfortunately, I had to leave after my presentation in order to return to Washington, D.C., so I didn't hear all of the testimony presented. However, I understand that a witness from Toyota challenged some of my testimony by reporting that a non-original equipment manufacturer (OEM) hood used on a repaired car was close to penetrating the windshield in a 35 mph barrier crash test. When considering this testimony it is important to be aware that a 35 mph barrier crash test is not required for compliance with any federal motor vehicle safety standard (FMVSS). In fact, the test conducted by Toyota was what is referred to as a New Car Assessment Program (NCAP) test and not a federal compliance test. The standard that regulates the intrusion of vehicle parts, usually the hood, through the windshield (FMVSS 219) specifies a 30 mph barrier crash test.

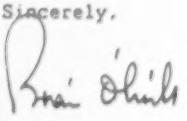
A barrier crash test at 35 mph involves 36 percent more energy than a test at 30 mph. Therefore a failure at the higher speed provides absolutely no information on the likelihood of failure at 30 mph. In fact, it is not uncommon for new cars meeting all FMVSS crash requirements at 30 mph to fail when tested at 35 mph because of the extra energy involved.

Allegations that the use of non-OEM parts in repairs can lead to non-compliance with federal motor vehicle safety standards are difficult to refute, because it is impossible to prove that this never happens. The only way to provide such proof would be to test virtually every car repaired with

non-OEM parts, and, as I pointed out in my testimony, this is also true for many repairs that use OEM parts. For example, it is impossible to know after an OEM windshield has been replaced whether or not the repairman has bonded it to the frame so that it meets FMVSS 212. By definition, it is impossible to prove that replaced windshields will always meet the original new car safety requirements, no matter what the source of the parts.

We do know that non-compliance with federal motor vehicle safety standards because of the use of non-OEM parts in repairs is extremely unlikely. Despite all of the allegations, I have not yet seen any evidence documenting examples of non-compliance because of the use of non-OEM parts. In the absence of such evidence, there is nothing to be gained by alarming the public with disclosure statements indicating that cars repaired with non-OEM parts may no longer comply with federal motor vehicle safety standards.

Sincerely,



Brian O'Neill
President

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JAMES F. FITZPATRICK
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April 9, 1987

Senator Dennis DeConcini
328 Hart Senate Office Building
Washington, D.C. 20510

Attn: Tara McMahon

Dear Senator DeConcini:

In your recent letter to Jean Hiestand, General Counsel of State Farm, you asked that we provide any additional relevant materials for the record in connection with the Committee's consideration of S. 791. In that connection, I have enclosed for inclusion in the printed record the answers that we prepared to questions posed by the Cabinet Working Group on Intellectual Property.

Of particular interest are some employment figures on persons affected by an elimination of crash parts competition. You will recall that Senator DeConcini noted that one should be properly alert to jobs in the auto industry that might be affected by foreign crash parts competition. In answer to his inquiry, the Chief Patent Council of Chrysler estimated that the number of auto employees affected was "in the hundreds."

Since the hearings, we have identified thousands of American jobs which would be affected if crash parts competition were curtailed because auto companies were given monopoly protection over crash parts. This would be the case even if one were to disregard the requirements of GATT and apply industrial design protection only to crash parts imported from overseas.

As the attached document shows, it is estimated that over 20,000 domestic jobs would be affected if all competition in crash parts were eliminated. It's clear that, as one would expect, competition has created new jobs in this country -- in manufacturing and in importing, distribution and servicing crash parts.

ARNOLD & PORTER

Senator Dennis DeConcini
April 9, 1987
Page 2

Initial estimates from aftermarket suppliers indicate that American jobs that could be lost if original equipment manufacturers have a monopoly on crash parts include:

Manufacturers of soft facia front ends sold as competitive crash parts -- manufacturers and toolmakers	500 jobs
Platers & recyclers of rechromed bumpers	3,600 jobs
Manufacturers of new radiators or recores	1,000 jobs
American workers involved in importation, warehousing and distribution of crash parts	
--Distributors (on basis of 35 containers of parts per month)	3,200 jobs
--Longshoremen, teamsters	100 jobs
Aftermarket Glass Industry	
Presently, industry has	
-- 2,500 jobs in manufacturing	
-- 1,500 jobs in distribution	
--21,000 jobs in retailing, mostly in installation	
If competition glass industry was eliminated all manufacturing and distribution jobs would be eliminated and the installation function sharply curtailed.	13,000 jobs

Thank you for including this letter and the attachment in the record.

Best wishes.

Sincerely,

James F. Fitzpatrick

April 1, 1987

BEFORE THE WORKING GROUP ON
INTELLECTUAL PROPERTY RIGHTS

Answers Submitted by Those Opposing
Design Protection for Automobile Crash Parts

1. QUESTION What types of products would be impacted by the legislation?

ANSWER The language of the proposed legislation is so broad that the design of literally any product (except wearing apparel which is expressly excluded) would be protected. Under the bill, a design need only be "intended to make the article attractive or distinct in appearance to the purchasing or using public." Furthermore, since designs of useful articles would be protected, and parts of useful articles are deemed to be useful articles, then a part of a useful article -- such as a fender or bumper, or perhaps even a spark plug or oil filter -- would also be protectable.

QUESTION What kinds of products would you expect to qualify for design copyright protection under the legislation that do not currently qualify for design patent protection?

ANSWER The Patent Act protects designs that are primarily ornamental. If the design is primarily functional, then there is no protection. However, the proposed industrial design legislation would protect all designs (except those expressly excluded) that are not dictated solely by function. In other words, a design protected under the Patent Act must be primarily ornamental. By contrast, under the proposed design copyright legislation, it

appears that a design that is 99.9 percent functional would be protected. As long as there is any evidence of ornamentation, the design would not be "dictated solely by a utilitarian function" of the article, and thus would be protected.

2. QUESTION Compare the existing state of design protection in the U.S. and the state that would exist if the legislation were adopted with the state of design protection in industrialized foreign countries.

ANSWER There is already ample protection for the ornamental features of useful articles under current U.S. design patent, copyright, trademark, misappropriation and unfair competition laws. Hence, designers have at least one and as many as five systems of law under which they may receive protection today.

Under the U.S. system, the Constitutional power to grant intellectual property monopolies is limited to what is necessary to accomplish the express purpose of promoting "the progress of Science and useful Arts." In short, intellectual property protection may be granted in order to, and only to the extent that it will, benefit the public -- in contrast to the European systems which are based on designers' "moral rights" and which place designers' special interests before the public interest. At bottom, the U.S. Constitution demands that grants of protection promote creativity and thereby benefit the public. Granting protection to the design of crash parts will not promote creativity. On the other hand, excluding crash parts from the scope of design

protection will preserve competition and thereby benefit the public.

There is a vast difference between protecting original designs and protecting replacement or repair components, and the line between the two must be drawn in any legislative enactment. Even in a jurisdiction generally affording more expansive protection to copyright owners, this line was clearly articulated by the highest tribunal in Great Britain in the 1986 British Leyland[1] decision.

The British Leyland case involved an automobile exhaust pipe which was subject to design protection under British law -- just the type of part that could be covered by the subject legislation. The auto manufacturer that owned the design copyright sued to enjoin the manufacturer of a competitive exhaust pipe.

The House of Lords recognized the right that we believe is paramount here -- that car owners have "an inherent right to repair their cars in the most economical way possible and for that purpose to have access to a free market in spare parts." Auto manufacturers are "not entitled to derogate from or interfere with that right by asserting their copyright. . . against a person manufacturing parts solely for repair."

Lord Bridge framed the issues this way:

> "What the [auto] owner needs, if his right to repair is to be of value to him, is the freedom to acquire a previously manufactured replacement exhaust system in an unrestricted market. Here then we come to the heart of the

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[1] British Leyland Motor Corp. v. Armstrong Patents Co., [1986] 1 A.C. 577.

> issue, where there appears to be a clear conflict of legal rights, the car owner's right to repair on the one hand, the copyright owner's right, on the other hand, to use his copyright in such a way as to maintain a monopoly in the supply of spare parts. It may be novel; but seems to me to be an unavoidable issue for the law to decide which of the two rights should prevail over the other."

Lord Bridge held that a consumer's right to repair his car must prevail over the automobile manufacturer's copyright interests. Auto manufacturers have "already enjoyed the primary benefit which their copyright protects" when it sells its car in the first instance. To extend auto manufacturers' copyright beyond original sale to the repair process is "to detract from the [car] owners' rights and, at least potentially, the value of their cars."

This decision speaks directly to the argument that European systems provide precedent for a U.S. design bill. Even in Great Britain, where there is industrial design protection, design protection is not allowed to defeat the inherent right of a purchaser of an automobile to keep his car in repair and to be able to turn to a competitive market for replacement parts.

3. QUESTION Should we expect this legislation, on balance, to help or harm consumers?

ANSWER This legislation, as applied to the auto crash parts industry, will significantly harm consumers because it will eliminate existing price competition in the sale of crash parts. It affords to the consumer absolutely no benefit.

Historically, automobile manufacturers have had a near-monopoly in both the manufacture and distribution of new crash parts used in the repair

of automotive vehicles. Because there was no competition, auto makers had the power to keep -- and did keep -- prices artificially high. As a result, the price of crash parts consistently rose at a sharply steeper rate than the price of other auto parts, such as spark plugs, oil filters and batteries, in which there has long been competition.

In the early 1980s, competitors were able to enter the crash parts market for the first time. The emergence of this new competition for even a limited number of crash parts had a significant impact. Between 1976 and 1983, before competitors entered the market, the price of crash parts increased at a rate of around 11 percent above inflation. By contrast, between 1984 and 1985, the price of the most frequently damaged crash parts, as measured by State Farm Insurance Company, dropped for the first time in a decade, at a time when the Consumer Price Index was still increasing. In fact, prices for those crash parts have fallen more than 12 percent in the past two years.

If automobile manufacturers are able to re-establish their control over the crash parts market, prices will surely rise to the old monopoly levels.

a. QUESTION For what types of products will the legislation result in increased investment in the design of the products? What will be the general amount of the increase for each such type?

ANSWER There is no evidence that there would be any greater investment whatsoever in design if auto manufacturers are given a statutory monopoly over crash parts. There is simply no evidence that

there exists a dearth of creative activity in the area of automobile design that would necessitate the grant of a monopoly over the crash parts market. Auto companies invest in design to support original equipment sales -- the car itself. New variations in the design of automobiles abound because there are already significant and sufficient incentives to invest in such designs -- to improve performance, attract customers, or reduce production costs.

QUESTION What types of new designs can we expect from this increased investment that otherwise would not be created?

ANSWER There would be no increased investment in the design of crash parts, and therefore there would be no new designs introduced that otherwise would not be created.

QUESTION What will be the extent of consumer benefit from these new designs?

ANSWER There would be no new designs of crash parts as a result of this legislation, and therefore no benefit to consumers -- only harm resulting from the crash parts monopoly.

QUESTION To what extent will the bill solve existing problems concerning consumer confusion as to the source or quality of goods? Give examples of where product sales or reputation were harmed by consumer confusion attributable to copies of works whose designs would be protected from copying under this legislation.

ANSWER There is no counterfeiting problem in the auto crash parts market. Competitive parts are sold by U.S. distributors to repair shops in the competitor's own packaging. Repair shops know with whom they are dealing and what they are buying.

Consumers are also informed; when insurance

adjusters write estimates, they specify on the face of the estimate if it is based on the cost of comparable, competitive parts.

Moreover, the National Association of Insurance Commissioners (NAIC) is considering regulations that would further ensure that insurance consumers are adequately informed of the source of the parts used in the repair of their cars. In a letter to the Chairman of the Senate Subcommittee on Patents, Copyrights and Trademarks, the NAIC told Congress that it was currently considering consumer protection regulations, and that Congress should not enact design protection legislation which would eliminate effective price competition in crash parts. The NAIC advised Congress that "as a matter of appropriate allocation of responsibilities under our federal system, the states are taking the necessary steps to assure that insurance consumers are adequately informed of the use of competitive crash parts and that consumer rights under insurance policy contracts are protected." (See NAIC letter attached as Appendix A.)

Finally, the decision to grant or deny intellectual property protection should not made based on unrelated consumer protection arguments or any other red herrings auto manufacturers throw out to divert attention from the fact that there is no economic or intellectual property justification for this type of design protection for crash parts. Questions of comparative quality should be worked out -- as they are now -- in the marketplace or under the supervision of state insurance commissioners.

b. QUESTION What manufacturers and sellers could be precluded from selling what types of products as a result of the legislation? What effect will the legislation have on the price consumers pay for these products?

ANSWER The entire industry involved in manufacturing and selling crash parts would be threatened if the auto companies were given the proposed statutory monopoly, since the design of the entire car, including all of its parts, would be protected. Manufacturers of competitive crash parts would be totally precluded from selling these products. Moreover, competitors who sell mufflers, batteries, spark plugs, oil filters, auto glass and other parts now available in a competitive marketplace and all domestically produced, could be put out of business, because the design of each of those parts could be copyrighted and competition thereby stifled.

QUESTION Would this legislation result in a decrease in competition for certain covered products, such as replacement or crash parts currently made by independent producers?

ANSWER This legislation would not just decrease competition in the manufacture of crash parts; it would absolutely destroy it. Although sheet metal competitive parts are today generally manufactured overseas, they are distributed in the United States. Therefore, the legislation would also eliminate American jobs in the distribution systems. Moreover, competition in industries such as glass parts (windshields) and bumpers -- which are manufactured and distributed in the United States -- would also be eliminated.

QUESTION Would enactment of this legislation result in higher automobile insurance premiums as the cost of replacement or crash parts increased?

ANSWER Certainly. The increase in the cost of crash parts that would occur if auto manufacturers are granted a monopoly would result in significant pressures to increase premiums. As the National Association of Insurance Commissioners told Congress, an absence of price competition in the crash parts market "would result in attendant price increases for automobile repairs which can only put greater pressure on insurers and commissioners to deal with the problems of additional rate increases for automobile insurance." (See Appendix A.) Therefore, this legislation will cause even those who will never be in an accident to suffer, because they will end up paying higher insurance premiums. (Of course, those who do have accidents, including those consumers who have deductibles and those who do not have auto collision insurance, will pay vastly more than necessary for auto repairs.)

QUESTION Will the legislation result in firms redesigning products for the sole purpose of controlling sales of replacements or repairs of the product even though consumers are not particularly concerned about the design (e.g. design automobile batteries in a peculiar shape and build the body of the automobile to permit insertion of only that shaped battery)?

ANSWER The legislation would encourage manufacturers to change designs of certain parts that need periodic replacement in order to create a monopoly in that market. The goal of manufacturers would no longer be to create designs for the sake of quality or safety or efficiency. Manufacturers

would adopt designs for the sake of design protection and the resulting monopoly control.

c. QUESTION Assuming increased design protection were appropriate to encourage increased investment in design, what is the optimal period? Why ten years?

ANSWER Any term of protection for the design of crash parts would be inappropriate and against the public interest. The market for auto crash parts is created immediately upon introduction of a new car. Thus, ten years, five years or even one year of protection would eliminate other manufacturers' ability to effectively compete.

d. QUESTION To what extent does a lower level of design protection in the U.S. than overseas benefit U.S. consumers by permitting competing sellers of the design in the U.S. when no such competition is permitted in countries where the design is protected?

ANSWER If the protection afforded under design patent, copyright, trademark, misappropriation and unfair competition laws fails to provide the same level of protection as that in other countries, then copying should be allowed. That is the basic underpinning of U.S. intellectual property law -- to encourage appropriation for proliferation of works at the lowest possible cost for the benefit of the public. It is not an accidental by-product of our system; it is the purpose, as established by the Constitution.

4. QUESTION Does it make sense to have a more permissive standard for protection of intellectual property in the area of design than in the area of invention? Is it more difficult to evaluate obviousness with respect to design than with respect to invention?

ANSWER There is no need for a more permissive

standard in the area of design than in the area of invention. It is not more difficult to evaluate obviousness with respect to design than with respect to invention. Indeed, the standards of copyright law, such as the substantial similarity test and the idea/expression dichotomy, would be more difficult to apply, particularly for designs of useful articles where the number of commercially-feasible variations is limited.

5. QUESTION When is a design "dictated solely by a utilitarian function of the article that embodies it"? Where a design is ornamental but also serves a unique function, can the proposed legislation ever have the effect of precluding persons from making a product that serves the same function?

ANSWER A design is "dictated solely by a utilitarian function of the article that embodies it" when there are no elements or aspects of the article that are intended to make it distinct or attractive -- i.e., when the article is 100 percent functional.

The legislation could certainly have the effect of precluding persons from making a product that serves the same function as the protected useful article. With respect to crash parts, the legislation would absolutely preclude other manufacturers from competing with the auto makers in the aftermarket.

6. QUESTION What would the effect of the legislation be on the ability of U.S. firms to compete in international markets?

ANSWER This legislation would prevent U.S. companies from competing in international markets. It would deny American companies the opportunity to make replacement parts for foreign cars that are

manufactured in the U.S. and protected under this legislation. Therefore, while American companies would not be able to manufacture parts protected by this legislation, foreign companies would be free to manufacture such parts and sell them in international markets.

7. QUESTION Describe any other costs or benefits to the legislative proposal.

ANSWER Granting monopoly control to auto manufacturers and eliminating competition in crash parts could have very negative consequences on employment in the U.S. Initial estimates from aftermarket suppliers indicate that the jobs potentially lost are:

Manufacturers of soft facia front ends sold as competitive crash parts --manufacturers and toolmakers	500 jobs
Platers & recyclers of rechromed bumpers	3,600 jobs
Manufacturers of new radiators or recores	1,000 jobs
American workers involved in importation, warehousing and distribution of crash parts --Distributors (on basis of 35 containers of parts per month)	3,200 jobs
--Longshoremen, teamsters	100 jobs
Aftermarket Glass Industry Presently, industry has -- 2,500 jobs in manufacturing -- 1,500 jobs in distribution --21,000 jobs in retailing, mostly in installation	
If competitive glass industry was eliminated all manufacturing and distribution jobs would be eliminated and the installation function sharply curtailed.	13,000 jobs

In contrast, auto industry representatives recently told Congress that the jobs involved on the auto industry side in the crash parts dispute was in the "hundreds."

8. QUESTION What would be the effect of maintaining an obviousness standard for design protection but using a registration system instead of the current examination system? Under a registration system issued patents could be evaluated for validity either in court or in a reexamination procedure in the Patent and Trademark Office.

ANSWER The examination system is useful and necessary. To the extent that there needs to be further resources allocated to speed up the current examination process, such resources should be so committed.

9. QUESTION What would be the bill's effect on imports?

ANSWER In the short term, this legislation would halt the importation into the United States of competitively-priced crash parts. However, at the same time, it would also harm domestic manufacturers of windshields, bumpers and other replacement parts and destroy any future opportunity for domestic manufacturers to enter the crash parts market.

10. QUESTION What would be the bill's effect on exports?

ANSWER This legislation would prevent U.S. companies currently manufacturing replacement parts from producing and exporting those parts.

11. QUESTION How would the bill's effects on imports and exports be implemented?

ANSWER See answers to questions 6, 9 and 10.

APPENDIX A

NAIC

1125 Grand Avenue
Kansas City, Missouri 64106
816/842-3600

National
Association
of Insurance
Commissioners

March 26, 1987

Senator Dennis DeConcini, Chairman
Subcommittee on Patents, Copyrights,
and Trademarks
327 Hart Senate Office Building
Washington, D. C. 20510

Re: S. 791

Dear Senator DeConcini:

I am filing this statement with the Committee as President of the National Association of Insurance Commissioners, a nonprofit, unincorporated organization consisting of the chief regulatory officials of the 50 states, the District of Columbia, American Samoa, Guam, Puerto Rico, and the Virgin Islands. I had hoped to appear in person to deliver this statement at your hearings on the above-captioned Bill this afternoon, but the press of official business in Maryland prevents me from doing so. However, I ask that this statement be included in the record of these hearings.

The NAIC has serious concerns about the potential impact of S. 791 on the competitive market for the sale of automobile crash parts; we urge the Committee to take appropriate action to exclude crash parts from the coverage of the Bill.

For many years, the NAIC has been sensitive to the need to control the costs of automobile insurance. We all recognize the benefits of competition as an efficient way of keeping prices down for the consumer. We applaud developments toward greater competition in the supplier markets in which insurers must deal. The emergence of vigorous price competition in the crash parts market holds promise of helping hold down repair costs because crash parts are a significant component in the cost of repairing automobiles.

We are concerned that S. 791 could have a severe anti-competitive impact on the crash parts market. An absence of price competition in that market would result in attendant price increases for automobile repairs which can only put greater pressure on insurers and commissioners to deal with the problems of additional rate increases for automobile insurance.

You should know that the NAIC and individual insurance commissioners across the country are alert to the consumer protection aspect of the sale of crash parts. We are considering regulatory responses which will look to fair dealing in connection with insurer involvement in the repair process. Thus, as a matter of the appropriate allocation of responsibilities under our federal system, the states are taking the necessary steps to assure that insurance consumers are adequately informed of the use of competitive crash parts and that consumer rights under insurance policy contracts are protected. We hope that Congress will not move into this area and make effective price competition impossible.

We thank you for the opportunity to present the views of the National Association of Insurance Commissioners to this Committee.

Sincerely,

Edward J. Muhl
President

Answers to Questions Submitted by Senator DeConcini
Following the Subcommittee Hearing on the
Industrial Innovation and Technology Act of 1987

1. QUESTION Have you surveyed State Consumer affairs departments on the question of crash parts? What are consumers telling body shops and consumer departments about parts?

ANSWER Generally, the relevant office at the state level that handles consumer complaints in connection with insurance or auto repair issues is the State Department of Insurance, rather than a state consumer affairs department. Complaints from consumers about the use of competitive crash parts have been minimal to date. However, given the widespread publicity on television and in print on this issue by the auto industry, and given the information being circulated by many insurance companies to their policyholders about crash parts, we anticipate that, over time, there will be consumer inquiries about the practice of using competitive crash parts and disclosing such use to consumers.

Every State Farm appraisal specifies if a non-OEM component is proposed to be used. To date, we have had very few complaints or disagreements with our customers in response to that notification. Furthermore, as we detail in the answer to Question 4, the National Association of Insurance Commissioners (NAIC) is presently developing a consumer information protection program at the state level which will respond to this issue. Specifically, the NAIC is considering an across-the-board requirement, which we strongly support, that would conform with the State Farm practice of informing the consumer of the use of non-OEM parts.

2. QUESTION Do you believe that the copied parts are of the same quality as the OEM parts regarding strengths, rust protection, fit and other factors? If so, what tests do you perform to make certain of this?

ANSWER The quality of all parts -- competitive and OEM -- is of central concern to State Farm. We will not knowingly allow parts of inferior quality to be used on the automobiles we insure.

It is impossible to make categorical statements comparing competitive parts to OEM, primarily because auto manufacturers refuse to make public their specifications. However, it is clear that there are parts of varying quality in the market today. Some original equipment parts may be superior to competitive parts. On the other hand, some competitive parts are superior to original equipment parts. The important consideration is whether the part, as installed by a body shop, performs properly.

State Farm has funded tests at nationally-known and respected laboratories in which the theory of equivalence was used to obtain an assurance of comparable quality -- or more importantly, comparable performance. These laboratories used well-accepted engineering test specifications.

These tests tend to show little or no difference when competitive parts are compared to OEM parts, as they are installed on the repaired vehicle by a competent repair technician. In many cases, a broader range of performance exists for both competitive and OEM parts when tested for equivalence directly from the carton as opposed to ready for vehicle installation. In a few cases we have found some competitive parts to be superior to OEM parts when taken from the shipping package and prior to any preparation for primer painting and color coat painting.

In addition, a State Farm pilot program of reinspection of vehicles repaired with competitive parts shows no difference in corrosion, fit and appearance

after almost three years. The sample size was somewhat small to support a strong statistical significance, but the program is currently reinspecting over 1,000 vehicles repaired with competitive parts and OEM-repaired vehicles. We are also comparing competitive fenders to undamaged, unreplaced, original OEM fenders on the other side of the same vehicles.

3. QUESTION Are non-OEM parts marked as required by the Motor Vehicle Theft Prevention Act?

ANSWER The Motor Vehicle Theft Prevention Act applies only to a limited number of parts of vehicles with high theft rates. We do not believe that parts for these vehicles are being produced by foreign competitive parts manufacturers at this time. However, State Farm officials have informed foreign competitive parts manufacturers about the federal standards. In addition, we have suggested that all competitive parts be marked to clearly indicate the manufacturer of those parts. The National Association of Insurance Commissioners has circulated an approval draft of a regulation that would require all crash parts to be marked, and done so in a way that would be visible even after installation. State Farm strongly supports such a requirement.

4. QUESTION If there are not significant consumer problems with the use of non-OEM crash parts, why is the National Association of Insurance Commissioners (NAIC) proposing an aftermarket parts model regulation and suggesting that states consider incorporating the text of this regulation directly into its existing trade practices act?

ANSWER The National Association of Insurance Commissioners has been actively considering this issue and is in the process of developing a model regulation concerning the use of competitive crash parts in the repair of vehicles covered by automobile insurance. This issue has not been consumer-generated, as we are aware of few, if any, complaints from consumers to state

insurance departments. Rather, automobile manufacturers have actively campaigned to bring the issue to the individual insurance commissioners. State Farm, in turn, has responded to the commissioners, in the interest of obtaining uniformity among the several states, and to present our view that consumers should be informed when competitive parts are used in the repair of a damaged vehicle.

At the NAIC meeting in Lexington, Kentucky, April 12 - 15, 1987, the Market Conduct Committee produced a draft which has been received by the Executive Committee. This regulation will require:

-- that all aftermarket parts be marked to identify the manufacturer;

-- that consumers be notified when any aftermarket parts are used;

-- that aftermarket parts be of like kind and quality with original equipment parts; and

-- that failure to meet these standards constitutes a violation of the state's unfair trade practice laws.

This proposal will be submitted for consideration and approval by the NAIC Plenary Session at its June, 1987, meeting in Chicago. Thus, the quality issue is going to be appropriately considered in the marketplace, subject to state insurance regulatory control. A draft of the proposed regulation is attached; State Farm supports both the concept and the specific requirements of this draft regulation and will urge its adoption.

This approach is consistent, we believe, with the views of the Register of Copyrights, who recognized in his statement to this Subcommittee that questions of quality have no place in the determination of appropriate <u>design</u> legislation, although they may be

addressed in consumer protection legislation. As the Register states:

> "[P]roduct reliability concerns could be addressed in consumer products legislation rather than design legislation. Design protection gives a manufacturer a right to exclude all competing copies -- superior parts as well as inferior ones. Moreover, competing American firms are excluded from the field as well as foreign firms."

The Register concluded that "design protection would be best evaluated on its own merits of advancing the public good by fostering the creation of new and valuable industrial designs rather than as a trade-inspired effort to protect a specific industry." (Emphasis added.)

5. QUESTION FMVSS 208, the Occupant Crash Protection Standard, sets limits on the amount of impact energies that can be transmitted to the femur, chest, and head of vehicle occupants in a crash. Cars are crashed to prove that this standard is met. Can non-OEM parts change the energy absorption characteristics of a vehicle and thus afford less protection to occupants?

ANSWER As Brian O'Neill, President of the Insurance Institute for Highway Safety, has stated, the debate over copyrighting crash parts is an economic issue, and not a safety issue. Although aftermarket crash parts, such as fenders and hoods, have major functional characteristics in a car's design, they do not include the basic structural items, such as frame rails or subframes, which provide the essential structural strength to the vehicle. Thus, these parts play a very limited role, if any, in the energy absorption characteristics of an automobile in the crash test specified by FMVSS 208.

6. QUESTION You have stated that consumers benefit from the present status of the law because competition is generated. Can you substantiate that benefit to consumers in dollars? Have insurance premiums dropped or stabilized as a result of this new competition?

ANSWER Last year, State Farm paid nearly $3.2 billion for crash parts and repairs. We estimate chat

this amount represents a savings of $45 million as a result of the availability and use of competitively-priced aftermarket parts. This savings reflects competition in the manufacture of a limited number of crash parts. However, there have been marked increases by auto manufacturers in prices of parts where there is no competition. Had this not occurred, the savings noted above could have been significantly greater. Nevertheless, competition has helped to hold down our overall claim costs and, thus, the insurance premiums paid by our policyholders.

However, these savings have not been enough to offset the inflationary spiral of overall claim costs. The price of new cars, and the cost of other parts, materials, and labor have continued to increase. In addition, there has been an increase in claim frequency -- the number of claims per 1,000 cars insured -- in recent years, brought about in part by lower fuel prices and increased driving, as well as by an increase in the number of cars on the road. As a result, we have found it necessary to increase the premiums in some states for these vehicle damage insurance coverages. However, the necessary increase would have been even greater, were it not for the substantial savings set forth above.

7. QUESTION Do you ask aftermarket manufacturers that you deal with to show you they've run crash tests, as original equipment manufacturers do?

ANSWER This question is based on an erroneous assumption that auto companies themselves run crash tests on individual crash parts. In fact, auto companies are not required to -- nor do they voluntarily -- crash test individual parts. Therefore, it would not be appropriate for us to ask competitive parts manufacturers to run those tests.

8. QUESTION Do you require aftermarket manufacturers you buy from to meet the same level of bumper protection as the original manufacturer?

ANSWER We do require aftermarket manufacturers to meet the same level of bumper protection as the original manufacturer. Rechromed bumpers are OEM bumpers that met the original standards, and simply have been put back into shape. As far as bumper facias are concerned, many are manufactured by the same on-shore manufacturer who makes those parts for the original equipment manufacturer.

9. QUESTION The insurance industry has been a proponent of anti-lacerative windshields that provide extra protection against lacerations for vehicle occupants. Some cars now have these special windshields. Do the aftermarket windshields for these cars have the special plastic inner layer that the original windshields have? Do you have a system for specifying OEM glass for cars that have anti-lacerative windshields, or do you put the less protective, less expensive aftermarket parts on these cars?

ANSWER Anti-lacerative windshields are available in the aftermarket. It is State Farm's claim policy to replace broken anti-lacerative windshields with anti-lacerative windshields. Our estimator's manual states that "the estimator should always allow for replacement with an anti-lacerative windshield when the vehicle was so equipped prior to the loss."

10. QUESTION If one of your customers refuses to accept an aftermarket part instead of an original equipment part, will you accommodate that preference only if the customer pays a "betterment" allowance? How much does that "betterment" payment amount to? Are your policyholders told when they first take out a policy with your company that they will be charged this extra fee if they want OEM replacement parts used in a repair?

ANSWER Under our policies, State Farm is required to repair a car with parts of like kind and quality. If competitive parts meet that standard, and are available at a lower price, then an estimate will be written on the basis of those competitive parts. If the customer wants a different, higher-priced part, then the customer may pay the difference in price.

At the time a policy is taken out with State Farm we do not tell our policyholders that they will pay an additional cost if OEM parts are used in the repair of their automobile. The decision to use OEM parts or competitive parts is made at the time a claim is filed. If a particular competitive part is not available in the geographical area where the repair is made, there is no additional charge for the use of an OEM part. Further, if the OEM parts cost the same or less, they can be used at no additional cost. Moreover, there is still no competition in the manufacture of the vast majority of crash parts; therefore, in those cases, OEM parts are used at no additional charge to the customer. It is only when a competitive part of comparable quality is available at a lower price, and the customer insists on the higher-priced OEM part, that he or she may incur an extra charge.

11. QUESTION Although you say aftermarket crash parts are reducing your claims costs by millions of dollars, the consumer price index shows the cost of automobile insurance continued to rise. Perhaps the savings are being offset by other factors, but even so, since your companies must justify rate increases to state insurance commissioners each year, can you show us any accounting for the effects of these savings in any of your recent filings with state insurance commissioners?

ANSWER As indicated in our response to Question 6, the estimated savings realized by competition in the aftermarket crash parts arena have thus far been largely masked by other cost increases. Further, in addition to the $3.2 billion paid out last year for crash damage, State Farm paid $4 billion in other claims for personal injuries and for other vehicle damage (e.g., theft, fire, storm damage, vandalism, and loss of use). These costs have also been affected by inflationary pressures, particularly for medical care, as well as the increase in claim frequency.

Nonetheless, the changes in the cost of vehicle damage coverage are generally less than those for all other auto insurance coverages. That typically has been reflected in the rate changes filed in the several states over the past couple of years.

For instance, in 1985, we made rate changes in 45 states (including the District of Columbia) averaging 11 percent overall. The collision changes, however, averaged only 1.6 percent. Last year, rate changes averaging about 8 percent were made in 24 states. The collision changes averaged only 3 percent.

Thus, the price increases for those coverages affected by the cost of crash parts were much less than the increases for other components of the automobile insurance premium. We are confident, therefore, that competition in the sale of crash parts has been a contributing factor in keeping down price increases in automobile collision insurance coverage.

The National Association of Insurance Commissioners, in a letter to Senator DeConcini concerning the industrial design legislation, recognized the benefits of competition in the crash parts market and urged Congress not to take steps that would eliminate this effective price competition which helps to keep insurance costs down. As the NAIC stated, the "absence of price competition in that [crash parts] market would result in attendant price increases for automobile repairs which can only put greater pressure on insurers and commissioners to deal with the problems of additional rate increases for automobile insurance."

ATTACHMENT

DRAFT 4-14-87
SUBGROUP ON AFTER MARKET AUTO PARTS
NAIC MARKET CONDUCT SURVEILLANCE TASK FORCE

AFTER MARKET PARTS MODEL REGULATION

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Section 1. Authority

This regulation is adopted pursuant to [the state Unfair Claims Settlement Practices Act,] Section _____.

Section 2. Purpose

The purpose of the proposed regulation is to set forth standards for the prompt, fair and equitable settlements applicable to automobile insurance with regard to the use of after market parts. It is intended to regulate the use of after market parts in automobile damage repairs which insurers pay for on their insured's vehicle. The regulation requires disclosure when any use is proposed of a non-original manufacturer part. It also requires that all after market parts, as defined in the regulation, be identified and be of the same quality as the original part.

Section 3. Definitions

A. "Insurer" includes any person authorized to represent the insurer with respect to a claim who is acting within the scope of the person's authority.

B. "Non-Original Manufacturer" means any manufacturer other than the original manufacturer of the part.

C. "After market part" for purposes of this regulation, means sheet metal or plastic parts which generally constitute the exterior of a motor vehicle, including inner and outer panels.

Section 4. Identification

All after market parts, which are subject to this regulation and manufactured after the effective date of this regulation, shall carry sufficient permanent identification so as to identify its manufacturer. Such identification shall be accessible to the extent possible after installation.

Section 5. Like Kind and Quality

No insurer shall require the use of after market parts in the repair of an automobile unless the after market part is at least equal in like, kind, and quality to the original part in terms of fit, quality and performance. Insurers specifying the use of after market parts shall consider the cost of any modifications which may become necessary when making the repair.

Section 6. Disclosure

The insurer must disclose to the claimant in writing, either on the estimate or on a separate document attached to the estimate, the following information in no smaller print than 10 point type:

> THIS ESTIMATE HAS BEEN PREPARED BASED ON THE USE OF AUTOMOBILE PARTS NOT MADE BY THE ORIGINAL MANUFACTURER. PARTS USED IN THE REPAIR OF YOUR VEHICLE BY OTHER THAN THE ORIGINAL MANUFACTURER ARE REQUIRED TO BE AT LEAST EQUAL IN LIKE, KIND AND QUALITY IN TERMS OF FIT, QUALITY AND PERFORMANCE TO THE ORIGINAL MANUFACTURER PARTS THEY ARE REPLACING.

All after market parts installed on the vehicle shall be clearly identified on the estimate of such repair.

Section 7. Enforcement

Any violation of this regulation is deemed to be a violation of this state's Unfair Trade Practices Act and shall be enforced by the penalties provided for in said Act.

NOTE: A state may wish to consider incorporating the text of this regulation directly into its existing unfair trade practices act.

Section 8. Severability

If any section or portion of a section of this regulation, or the applicability thereof to any person or circumstance is held invalid by a court, the remainder of this regulation, or the applicability of such provision with a person shall not be affected thereby.

Section 9. Effective Date

This regulation shall become effective on _____.

Note: It is recommended that states allow appropriate lead time to comply with this regulation. No regulation should take effect prior to January 1, 1988 at which time it is expected that most parts manufacturers will have had sufficient notice and time to mark their parts for identification.

Answers to Questions Submitted by Senator Leahy
Following the Subcommittee Hearing on the
Industrial Innovation and Technology Act of 1987

1. QUESTION When Senator DeConcini introduced S. 791, he noted that some of America's major trading partners -- Japan, West Germany, the United Kingdom and France -- offered design registration. Are the crash parts of cars manufactured in those countries protected by their industrial design laws? Please describe the competitive status of the crash parts markets in those nations. Do car owners in West Germany and France confront monopoly prices when they seek to have their damaged cars repaired with high quality parts?

ANSWER State Farm does not conduct any business overseas. Therefore, we do not have any first-hand knowledge of the practical application of industrial design laws or the competitive status of the crash parts markets in those countries. However, as far as we have been able to ascertain, there is quite substantial and extensive competition in the crash parts markets in many European countries, even those that have enacted design legislation. There may be several reasons for this apparent contradiction.

First, what the laws state and how they are administered may be very different. Some foreign countries may have design statutes that seem to cover all industrial designs; however, as the Register of Copyrights emphasized in his statement before this Subcommittee, "comparative analysis of foreign laws is difficult." The language of the statutes may be misleading, since "the registrability of a design is governed by internal administrative practices not readily apparent from a reading of the statute."

Second, as the Register of Copyrights also pointed out, even assuming the general registrability of designs of crash parts in these countries, the standards that individual designs must meet under many foreign

design statutes are higher than the standards of S. 791. Therefore, it is possible that the designs of fenders and hoods and the like simply do not meet the standards for protection under those foreign statutes.

Third, the foreign auto manufacturers may, for whatever reason, choose not to exercise rights they may have under these laws. The British Monopolies and Mergers Commission, in its investigation into Ford Motor Company's practice of not granting licenses to manufacture and sell replacement body parts for Ford automobiles, found that until 1981, Ford simply chose to accept competition in England "by not asserting property rights against independent suppliers of replacement panels."[1]

Finally, the courts may interpret the statute in a manner which does not provide protection for crash parts, or may create a repair parts exception, as the House of Lords did in British Leyland.

2. QUESTION In your testimony, you refer to a recent case decided by the British House of Lords. What is left of the British law on industrial design after this decision? Does the British statute governing design protection provide us with any guidance on how we should draft a law protecting industrial designs? Do any of the other European laws provide models from which we can craft a statute that protects original industrial design in a sufficiently narrow scope?

ANSWER The British House of Lords merely recognized a repair parts exception to the otherwise complete

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1 "Ford Motor Company Limited: A report on the policy and practice of the Ford Motor Company Limited of not granting licences to manufacture or sell in the United Kingdom certain replacement body parts for Ford vehicles," Presented to Parliament by the Secretary of State for Trade and Industry by Command of Her Majesty, Cmnd. 9437, at 33 (Feb. 1985) (hereinafter cited as Monopolies Report).

In 1981, Ford chose "to seek to carry on the body panel section of its business as a nonopolist," which was followed by the Commission's investigation (see footnote 2) and, of course, the House of Lords decision in British Leyland.

protection granted to industrial designs. What is left is full protection for designs in the context of original sales.

The British statute does not provide guidance on how we should draft industrial design legislation, at least with respect to repair parts -- otherwise the House of Lords would have found it unnecessary to judicially carve out such an exception.[2] However,

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[2] The need for some type of different treatment with respect to replacement parts was also recognized prior to the House of Lords decision by the British Monopolies and Mergers Commission in its report to Parliament. The Commission found that even if Ford granted licenses, it would not create a sufficiently competitive marketplace:

> "The root of all these difficulties appears to us to be that a licence, although it operates as a sharing with the licensee of the exclusive right enjoyed by the owner of the copyright or registered design, is fundamentally an assertion by the licensor and a recognition by the licensee of that exclusive right. In this case we have found that the absence of competition resulting from the assertion of that exclusive right would operate against the public interest. There is therefore a conflict between the exclusive right of the owner of the copyright or registered design and the public interest. A resolution of this conflict which will allow the development of competition requires some modification of the exclusive right, not merely its sharing with certain individuals or companies."

Monopolies Report at 43.

The Commission concluded that competition in the replacement parts market had a beneficial effect on prices and innovation and that elimination of the competition was not in the public interest:

> "The competition of the independents appears to us to have affected prices in two ways. First, it has meant that for a number of body panels the owner of a Ford car has had, and at present still has, a choice between a panel made by Ford and a cheaper but equivalent panel made by an independent. The comparative prices of selected parts shown in Tables 3.4 and 3.5 illustrate this. Secondly, it appears that in some cases the competition has led Ford to reduce the price of a panel or to limit a price increase; we have quoted one such case . . . . This case is entirely consistent with Ford's evidence that the factors governing the pricing of its replacement body panels include the price competition offered by independents.

[Footnote continued on next page]

although the British laws are not useful models, as the Register of Copyrights noted in his statement before this Subcommittee, the British Leyland case does illustrate "the problems associated with broad design protection."

As noted earlier, comparisons to foreign design laws are difficult. However, if they provide any guidance to Congress, it is that S. 791, as it is presently drafted, is too liberal in its standards and thus too broad in its coverage. As the Register noted, foreign design laws consistently require a higher level of originality and innovation to secure design protection than does S. 791 -- which has standards that are so minimal that it would cover "virtually every man-made article of use except wearing apparel," unless one of the narrow exclusionary criteria of the bill applies.

3. QUESTION When your company gives an estimate for the cost of repairing a car, the estimate is made based upon lower priced competitive parts. How does the consumer know which particular competitive parts he should purchase and which he should not purchase? Do you advise the consumer which particular competitive parts are of equal or better quality and every bit as safe as the original manufacturing equipment? Do you advise the repair shop as to which particular competitive parts are of equal or better quality and every bit as safe? How do you determine which parts you will use when making an estimate and which you will not? Are there any instances where your company would advise the consumer not to purchase the competitive parts? If so, when?

[Footnote continued from previous page]

> Competition has also had another important effect. It is to be noted that it was the independents who identified the potential demand for corrosion part panels and satisfied it. Ford acknowledged that it had not initially responded to this demand. It must therefore be a matter for speculation whether Ford would ever have introduced corrosion part panels without the stimulus of independent competition. In this way, competition has been the spur of innovation and has brought benefit to members of the car-owning public."

Monopolies Report at 37-38.

ANSWER State Farm estimates include the cost and the name, address and phone number of the supplier of the part used in the estimate. The suppliers appearing on State Farm estimates warrant the parts to be of equal quality to original equipment parts. Moreover, State Farm policyholders have complete freedom in choosing where they have their vehicles repaired. The decision as to the parts actually used to repair the vehicles is one made by the vehicle owners and the auto body shops they select.

Senator DECONCINI. Thank you.
Mr. Alegi?

STATEMENT OF AUGUST P. ALEGI, VICE PRESIDENT AND DEPUTY GENERAL COUNSEL, GEICO, REPRESENTING THE NATIONAL ASSOCIATION OF INDEPENDENT INSURERS

Mr. ALEGI. Mr. Chairman, my name is August P. Alegi, and I am vice president and deputy general counsel of Government Employees Insurance Co. I am here testifying today on behalf of the National Association of Independent Insurers as well as GEICO.

At the outset we'd like to say that the members of NAII, including GEICO, are as concerned as any American over the mounting trade deficit, and we commend the efforts of the Congress to act on this matter of grave national concern. We also recognize that there are important trade aspects to S. 791, and we generally support that effort. However, contrary to claims that you may have heard, the automobile insurance industry is not forcing unsafe, shabby, or inferior parts on the American public. Moreover, the issue at hand should not be considered a trade issue. Manufacturers of imported cars would have the same protection from competition under this bill that the domestic manufacturers would have.

My company is a multiline property and casualty insurer, principally writing preferred risk automobile and homeowners insurance. For several years we have encouraged the use of quality competitive replacement parts. Those parts are manufactured by someone other than the original automobile manufacturer. The use of such parts in the repair and restoration of damaged automobiles has helped contain increases in automobile insurance premiums for our policyholders.

Not long after the commencement of mass production of automobiles, hard replacement automobile parts—such as shock absorbers, mufflers, oil filters, spark plugs, brake shoes, brake linings, batteries and tires, which affect the car's performance significantly more than fenders and bumpers—began to be successfully manufactured by companies other than the original equipment manufacturer.

These parts were sold at lower prices and were used with confidence by, and without complaint from, consumers. It is only in the last few years that sheet metal or plastic parts that comprise the exterior of motor vehicles have been manufactured by companies other than the original equipment manufacturers. It was then that the outcry against competitive replacement parts began to be voiced by automobile manufacturers and body shops.

Companies such as Keystone Automobile Industries, a company that has been in business for decades and whose products GEICO recommends, started producing cosmetic exterior parts at prices substantially below those of the OEM. The virtual monopoly of the manufacturers of these so-called crash parts was being eroded, forcing lower prices. Mazda, for one, as you heard, trumpeted that they lowered prices as much as 53 percent in order to meet the competition.

NAII is opposed to legislation that will effectively end competition in the auto crash parts market. If adopted by the Congress, the demise of the competitive replacement parts industry is virtually assured, thereby reducing competition and restoring the OEM's monopoly. The cost to repair cars will rise, and so will insurance premiums. The person that's harmed is the policyholder to whom these costs will be passed.

We support efforts by the Aftermarket Body Parts Association to require member manufacturers to stamp their name or logo directly onto parts to eliminate consumer fears regarding counterfeiting. At the present time, such permanent identification is currently being affixed by certain manufacturers.

Neither GEICO nor any legitimate insurer would permit, much less insist, on repair and replacement of damaged automobile parts with unsafe, inferior or defective parts. How would it benefit insurers if the replacement parts somehow could cause or generate additional claims or additional costs? We're the ones who would pay those additional claims or additional costs, so it would be insane for us to insist that inferior parts be put on an automobile.

Senator DECONCINI. You wouldn't necessarily pay them, would you, Mr. Alegi, unless the customer comes back? If he has an accident today and he gets an inferior fender that lasts 2 years instead of four years and in 2 years he's moved to another town, as most Americans do, he doesn't come back to you and bother you; I'm sure most of your customers don't come back so you have no way of knowing if they have inferior parts. Isn't that correct?

Mr. ALEGI. Our average policy life is 11 years, Senator.

Senator DECONCINI. And how many of them come back?

Mr. ALEGI. Well, as I say——

Senator DECONCINI. No, how many of them come back with complaints that their parts are not good and that you have to replace?

Mr. ALEGI. We've never had——

Senator DECONCINI. You never replace parts. So you've never had anyone who has come back with a defective part?

Mr. ALEGI. We have never had a consumer, a policyholder, complain to us about defective parts.

Senator DECONCINI. So all of the parts that have been put on your customers' cars have been perfect?

Mr. ALEGI. I just answered your question, Senator; we've never had a consumer complaint. We've got lots of complaints from body shops and from the original equipment manufacturers, but no policyholder has ever said, my fender is defective. What we're trying to say to you is that it is not in our economic interest to put a defective fender on a car. If that fender—you heard testimony that the fender is going to crumple; I've seen stories that the windshield is going to come through the window. If that happens, we're the one that's going to have to pay for the injury. Fenders are one thing; injuries are certainly a lot more expensive——

Senator DECONCINI. If I understand what you're telling me, if you pay for a fender on one of your customer's cars and 2 years later it's going to rust out, you think that customer is going to come back to you for that?

Mr. ALEGI. Oh, sure. Any time——

Senator DECONCINI. I doubt that, just having gone through that myself. You don't go back to your insurance company 2 or 3 years later; you're usually so fed up with them on the problem that you have, you go back and get it painted or fixed up yourself.

Mr. ALEGI. When there's a problem with a repair job, whether it's with a part or whether the part doesn't fit, or whatever the repair job is—as Mr. Hiestand said, the customer doesn't complain to the body shop center. The customer complains to his insurance company. We're the one that they say—the most common complaint we hear is that the paint doesn't match; that's more than anything else. The customer says, my car's been fixed but the paint doesn't match.

Senator DECONCINI. That's right, at the time that it's put on.

Mr. ALEGI. That's right, but he doesn't call the body shop and say that; he call us.

Senator DECONCINI. What about 2 years later when it's rusting? You don't have any of those complaints, you say?

Mr. ALEGI. I would say in my experience that the customer—even though we don't guarantee repairs, the customer has the perception that we do. And if his car has been in an accident and sometime down the road there's something wrong with that repair job, we're the one—especially if he's moved; because if he's moved from New York to California, he doesn't even remember who fixed his car, but he certainly remembers who insured his car, Senator, because generally it's still us. We have a very long policyholder life, as does State Farm.

Senator DECONCINI. I just find it amazing that you have no history of anybody coming back saying that. I suggest that indicates they don't come back to you. Because of all the customers you must have, there must be some problems when the part rusts or falls apart or something. But maybe you're right. I can't prove my accusation either, but it's just interesting to be so convinced that none of these people come back with fenders that rust out, because I don't think they would come to you. I think they would go back and get the fender fixed and paint it so they don't have to go through the insurance process.

Mr. HIESTAND. Senator, I would suspect that with the television advertising by Mr. Goodwrench and others and some of the print advertisement and all of the publicity and the charges about qual-

ity, as time goes by, if insureds have problems with rust, they will indeed come back to us. And I would suppose that that will happen occasionally, and I would also expect that about half the time or more it will be original equipment fenders, maybe, rusting before the customer thought they should——

Senator DECONCINI. You're saying that in your case, some do come back?

Mr. HIESTAND. No, we have not had any as far as we know.

Senator DECONCINI. You have not had any?

How many automobiles does GEICO insure, Mr. Alegi?

Mr. ALEGI. Almost 2 million.

Senator DECONCINI. Two million, and you've never had one come back? That's pretty good.

Mr. ALEGI. They insure about 12 million.

Senator DECONCINI. You insure about 12 million, and you've never had a customer come back and say——

Mr. HIESTAND. We insure 27 million, sir.

Senator DECONCINI. Oh, 27 million?

Mr. HIESTAND. And we have never, to my knowledge, had a customer come back and complain about the performance of a competitive part.

Now, we are doing one thing, Senator, which I think will help us to determine—reassure ourselves—concerning the quality of these parts. We have instituted a reinspection program. We have identified insureds who have had competitive parts put on their cars during a repair process, and we have gone out 6 months a year or so later and reinspected them. We had a small pilot project which indicated that those parts are doing very, very well in and of themselves and in comparison with——

Senator DECONCINI. How long has that program been in place, just out of curiosity?

Mr. HIESTAND. We did it the first time last year, I believe it was. We are now engaged in a much broader program, and that will tell us even more. But as I say, thus far the performance of the competitive parts is comparable to that of the——

Senator DECONCINI. Your first-year experience is that you found none that needed replacement or that didn't meet the standards?

Mr. HIESTAND. We have looked, and our reinspectors have judged them, and the percentage of parts performing satisfactorily is very high, both with the manufacturer's parts as well as the——

Senator DECONCINI. I take it that you found some of the parts were not satisfactory?

Mr. HIESTAND. Yes, a small percentage of both aftermarket and original equipment seemed to be rusting a little bit or not fitting properly.

Senator DECONCINI. But those particular customers hadn't decided to come and file a complaint or anything?

Mr. HIESTAND. No. What we found wasn't all that bad. But we did make a very careful reinspection.

Senator DECONCINI. Mr. Alegi, were you finished with your statement?

Mr. ALEGI. No. Just two more paragraphs, but I did want to say one other thing.

Senator DECONCINI. OK.

Mr. ALEGI. In the last 2 weeks or so I have started to get telephone calls from the public, and they're saying, when I get in an accident I want a genuine GM part put on my car. And I would say, have you been in an accident? Well, no, I haven't, but when I get in that accident I want the genuine part because E. G. Marshall told me to say it.

But we haven't gotten anything from somebody who's been in an accident. Apparently there are a lot of calls being generated, but I guess that's something we need to expect.

Keystone Automotive Industries, whose products GEICO recommends, guarantees its sheet metal parts for as long as you own your car. We know of no OEM company that matches that guarantee. Such a guarantee insures a product that is as good as or better than an OEM part. NAII believes that it is a myth put forth by the OEM and body shops that any additional labor is required to use competitive replacement parts.

GEICO discloses to insureds when an estimate has been prepared based on the use of an automobile part not made by the OEM. Our computer-produced estimates include the following statement:

> This estimate may include the use of aftermarket parts of Keystone Automotive Industries, which Keystone guarantees for as long as you own your vehicle. Ask your adjuster or repair shop for details.

Thank you.

[Submissions of Mr. Alegi follows:]

STATEMENT OF THE NATIONAL ASSOCIATION OF INDEPENDENT INSURERS
BEFORE THE UNITED STATES SENATE COMMITTEE ON THE JUDICIARY
SUBCOMMITTEE ON PATENTS, TRADEMARKS AND COPYRIGHTS
WITH RESPECT TO S. 791 THE
INDUSTRIAL INNOVATION AND TECHNOLOGY ACT

March 26, 1987

Mr. Chairman, my name is August P. Alegi and I am Vice President and Deputy General Counsel of Government Employees Insurance Company (GEICO). I am here today testifying on behalf of the National Association of Independent Insurers as well as GEICO. I am Chairman of the Laws Committee of the National Association of Independent Insurers (NAII), a national insurance trade association of more than 500 property and casualty insurance companies, which write about one-third of all the automobile insurance in the United States. We appreciate the opportunity to testify before you today with respect to this crucial issue.

Let me say at the outset that the members of NAII, including GEICO, are as concerned as any American over the mounting trade deficit, and we commend the efforts of Congress to act on this matter of grave national concern. We also recognize that there are important trade aspects to S. 791, and we generally support this effort.

However, as both the Chairman and Ranking Minority Member of the Subcommittee pointed out in their statements accompanying the introduction of S. 791, there is one potential problem of very considerable importance to both the insurance industry and our customers, the American consumer. Without some modification, S. 791 will result in the elimination of competition within the automobile crash parts market, thereby reestablishing a monopoly in this market for the manufacturers of original equipment. The reestablishment of such a monopoly will inevitably result in higher repair costs which, in turn, will lead to higher insurance premiums. A major control that presently exists on the pricing

of auto crash parts is the existence of alternative sources of supply. If they are eliminated by this legislation, the consumer will have no recourse.

Other copyright protections exist in an environment of choice--that is, the consumer can choose to see a particular movie or read a particular book. There are many options. But once an individual has purchased an automobile and it has been involved in an accident, he or she has no choice but to fix (or replace) it. And if this legislation survives intact, that consumer will again become the absolute captive of the original equipment manufacturer.

Contrary to claims you may have heard, the automobile insurance industry is not forcing unsafe, shabby or inferior parts on the American public. Moreover, the issue at hand should not be considered a trade issue. Manufacturers of imported cars would have the same protection from competition under this bill that domestic manufacturers would have.

GEICO is a multiple line property and casualty insurer principally writing preferred risk automobile and homeowners insurance. In terms of premium volume countrywide we are the fifth largest stock automobile insurer.

For several years GEICO has encouraged the use of quality "competitive replacement parts", those parts manufactured by someone other than the original automobile manufacturer. The use of such parts in the repair and restoration of damaged automobiles has helped contain increases in automobile insurance premiums for our policyholders.

Not long after commencement of the mass production of automobiles - "hard" replacement automobile parts - such as shock

absorbers, mufflers, oil filters, spark plugs, brake shoes, brake linings, batteries and tires, which affect a car's performance significantly more than fenders and bumpers, began to be successfully manufactured by companies other than the original equipment manufacturer. These parts were sold at lower prices and were used with confidence by and without complaint from, consumers. It is only in the last few years that sheet metal or plastic parts that comprise the exterior of motor vehicles have been manufactured by companies other than original equipment manufacturers (OEM). It was then that the outcry against competitive replacement parts began to be voiced by automobile manufacturers and body shops.

Companies such as Keystone Automobile Industries, a company that has been in business for decades and whose products GEICO recommends, started producing cosmetic exterior parts at prices substantially below those of the OEM. The virtual monopoly of the manufacturers of these so-called "crash parts" was being eroded, forcing lower prices. Mazda, for one, trumpeted that they lowered prices as much as 53% in order to meet the competition.

This unwelcome competition has been countered by a campaign and media blitz designed to discourage the use of competitive replacement crash parts by implying that they are counterfeit, of inferior quality, don't fit as well or look as good as OEM parts. In our opinion, the real complaint is that the OEM can't stand the competition.

NAII is opposed to legislation that will effectively end competition in the auto crash parts market. If adopted by the Congress the demise of the competitive replacement parts industry is virtually assured, thereby reducing competition and restoring the OEM's monopoly. The cost to repair cars will rise and so

will insurance premiums. Who will be harmed? The policyholders, to whom the costs will be passed.

We support efforts by the Aftermarket Body Parts Association to require member manufacturers to stamp their name or logo directly onto parts to eliminate consumer fears regarding counterfeiting. At present, such permanent identification is currently being affixed by certain manufacturers.

Neither GEICO nor any legitimate insurer would even permit, much less insist, on repair and replacement of damaged automobile parts with unsafe, inferior or defective parts. How would it benefit insurers if the replacement parts somehow could cause or generate additional claims and additional costs?

Keystone Automotive Industries, whose products GEICO recommends, guarantees its sheet metal parts for as long as you own your car. We know of no OEM company that matches that guarantee. Such guarantee insures a product that is as good or better than an OEM part. NAII believes that it is a myth put forth by the OEM and body shop people that any additional labor is required to use competitive replacement parts.

GEICO discloses to insureds when an estimate has been prepared based on the use of an automobile part not made by the OEM. Our computer produced estimates include the following statement: "This estimate may include the use of aftermarket parts of Keystone Automotive Industries which Keystone guarantees for as long as you own your vehicle. Ask your adjuster or repair shop for details."

Finally, we are opposed to this legislation because there is no reliable evidence that the quality of competitive replacement parts is deficient in any of the ways being claimed. The alleged

structural and safety standard issues are a smoke screen that have been completely refuted. We are sure that you are aware that Brian O'Neill, President of the Insurance Institute for Highway Safety, has testified that the controversy relative to crash parts is an economic, not a safety, matter.

GEICO has a 50 year history of service to its policyholders which we would do nothing to jeopardize. The control of loss costs is an important obligation to our insureds and is necessary to contain the cost of automobile insurance.

We believe that any legislation which would aid in the effort of the OEMs to regain their monopoly position is not in the best interests of the automobile insurance consumer. We urge you to exclude automotive crash parts from the scope of the proposed legislation.

GEICO
Washington, D.C.

August P. Alegi
Vice President and
Deputy General Counsel

April 13, 1987

HAND DELIVERED

The Honorable Dennis DeConcini
Chairman
Subcommittee on Patents, Copyrights and Trademarks
United States Senate
Committee on the Judiciary
Washington, D.C. 20510-6275

Dear Mr. Chairman:

During my testimony on S. 791 on March 26, 1987, I testified that no policyholder had ever complained to us about the use of an aftermarket part. Since that testimony, our Claims Department has located a complaint filed in our Macon, Georgia office by a policyholder that indicated that the hood placed on his car was defective at the time of delivery.

A new part was ordered and the original hood was replaced to the satisfaction of the consumer. Attached is a copy of our internal complaint document.

Note that this complaint revolves around an aftermarket part that was not satisfactory before it was put into service. Many OEM parts fall into the same category.

We respectfully request that this letter supplement the record of the hearing held on S. 791 on March 26, 1987.

Very truly yours,

August P. Alegi

APA:dn

Attachments

CLAIMS COMPLAINT

TO: Mr Jones (AVP Claims or Branch Office Manager) III (Region or Office)

FROM: Home Office Claims Department DATE: 11/6/86

COMPLAINT BY: Larry Hedberg PHONE: Home 404-868-6887

CLAIM NO: 0024020200191920 POL. NO: 0360190 D/L: _____

INSURED: Larry Hedberg PHONE: Same

All material received with this complaint is attached.

This matter was discussed with Macon (Name) 11-6 (Date)

COMPLAINT SUMMARY: Car was repaired with after market parts. Hood has ripples and is not acceptible. Keystone is the manufacturer of the part. The adjuster and his Supr said that they will replace the part with another keystone hood. P/H wants an original part not a "substandard part." He does not want to take a chance that the next part is unacceptible. Each time the part is replaced, he is without his vehicle. He has a long commute to work and his only alternative is a M/C.

FOR ALL COMPLAINTS

COMPLETE FOLLOWING INFORMATION, RETURN COPY TO HOME OFFICE CLAIMS, TRAINING DIV., WITHIN 3 DAYS OF RECEIPT OF COMPLAINT.

DATE COMPLAINT RECEIVED 11-6 DATE COMPLAINT HANDLED 11-6

HOW WAS COMPLAINT HANDLED? Telephone ✓ Mail _____ In Person _____

WHO CONTACTED COMPLAINANT? Exam/Adj. _____ Supv. ✓ Mgr/Dir ✓ AVP ✓

CURRENT STATUS OF COMPLAINT: THE PROBLEM WAS RESOLVED AND THIS WILL CLOSE. THE AFTERMARKET HOOD IS NOT ACCEPTABLE AN O.E.M. HOOD WILL BE UTILIZED. MRS. JONES AUTHORIZED THREE DAYS LOSS OF USE.

NOTE: ALL SECOND COMPLAINTS REQUIRE A MEMO OF EXPLANATION TO HOME OFFICE CLAIMS DEPARTMENT OR A PHONE CALL TO COMPLAINT UNIT, EXT. 2735.

C-231 (8-84) NS

GEICO
Washington, D.C.

August P. Alegi
Vice President and
Deputy General Counsel

April 16, 1987

The Honorable Dennis DeConcini, Chairman
Subcommittee on Patents, Copyrights and Trademarks
United States Senate
Committee on the Judiciary
Washington, D.C. 20510-6275

Re: S. 791 - The Industrial Innovation and Technology Act of 1987

Dear Senator DeConcini:

Thank you for your letter of March 27, 1987 which poses 11 questions regarding our testimony at the subcommittee hearing on the above-referenced proposed legislation. We appreciate the opportunity to supplement the record by providing you with the answers to those questions.

We have had the opportunity to review the answers to your questions supplied by the State Farm Mutual Automobile Insurance Company. As many of the answers are generic in nature, we will adopt their answer to these types of questions. Where our answer would be different, or we feel additional information would be helpful to you, we will so indicate.

Question No. 1

We adopt the State Farm answer. GEICO has been able to identify one complaint from a consumer regarding aftermarket parts. That complaint was detailed in our letter to you of April 13, 1987.

Question No. 2

GEICO has done no independent testing. We will adopt the State Farm answer.

Question No. 3

At the present time GEICO will specify only an aftermarket part that has been marked for identification by the manufacturer. With respect to the Motor Vehicle Theft Prevention Act, we adopt State Farm's answer.

Question No. 4

GEICO also strongly supports the draft regulation promulgated by the National Association of Insurance Commissioners (NAIC).

Question No. 5

We adopt the State Farm answer.

Question No. 6

Set forth below is a chart which shows our countrywide rate changes by line of business for 1985, 1986 and year to date (YTD) 1987. Liability includes those coverages protecting the insured from suits from others. Physical Damage includes Comprehensive and Collision coverages, those coverages affected by the existence of aftermarket parts.

Year	1985	1986	1987(YTD)
Liability	19.6	16.1	4.9
Physical Damage	3.4	-1.3*	-1.6
Total	13.0	9.1	2.3

* including the effect of a 10 million dollar (2.6%) dividend to policyholders in New York and Texas for Comprehensive and Collision coverages.

As you can see, there are significant differences between the rate changes by line of business with the revisions much lower for physical damage coverages. Note that in the recent past and at the present time, we actually show decreases for these coverages. While we cannot attribute this data directly to the existence of competitive parts, they certainly have had an impact on these favorable results.

Question No. 7

We adopt the State Farm answer.

Question No. 8

We adopt the State Farm answer.

Question No. 9

While our manual does not explicitly state that anti-lacerative windshields will be replaced with the same type, our claims representatives are so instructed.

Question No. 10

We make every effort to reach an accommodation with the insured. We try to explain the benefit of the use of competitive parts; however, if our customer is insistent we will authorize an original equipment part. There have been few of these cases.

Question No. 11

We estimate the direct savings to us as a result of the use of aftermarket parts to be $1,267,345. This number does not include the savings coming from the drop in OEM prices as a result of competition. For our pricing information see our answer to question no. 6.

We appreciate the opportunity to supplement the record. If you wish any further information, please advise.

Very truly yours,

August P. Alegi

APA:dn
1-dc-413

GEICO
Washington, D.C.

August P. Alegi
Vice President and
Deputy General Counsel

April 16, 1987

The Honorable Dennis DeConcini
United States Senate
Committee on the Judiciary
Washington, D.C. 20510-6275

Dear Senator DeConcini:

Your letter of April 10, 1987 posed an additional question to us from Senator Leahy. We are pleased to respond as set forth below.

Question

1. When your company gives an estimate for the cost of repairing a car, the estimate is made based upon lower priced competitive parts. How does the consumer know which particular competitive parts he should purchase and which he should not purchase? Do you advise the consumer which particular competitive parts are of equal or better quality and every bit as safe as the original manufacturing equipment? Do you advise the repair shop as to which particular competitive parts are of equal or better quality and every bit as safe? How do you determine which parts you will use when making an estimate and which you will not? Are there any instances where your company would advise the consumer not to purchase the competitive parts? If so, when?

Answer

Competitive parts are identified on our estimates as aftermarket parts and the manufacturer is identified. The parts which are listed on the estimate are the parts that we recommend be used in the repair of the consumer's automobile.

It is our contractual obligation to repair our insured's automobile with parts of "like kind and quality" to the parts that were damaged. We disclose to the insured and the body shop the aftermarket parts that are used which, in our opinion, are equal to the original manufacturer's parts. We will only use parts which are guaranteed by the vendor. None of the parts we use are safety related.

When there is a significant price difference between the aftermarket and the original equipment part and if a quality aftermarket part is available, we will then identify the aftermarket part on the estimate. In any instance where vehicle safety is involved or the quality of the aftermarket part is questionable, we would advise against the use of those parts.

We would be pleased to respond to any further questions your committee may pose to us.

Very truly yours,

August P. Alegi

APA:dn
amp-4

Senator DECONCINI. Thank you.
Mr. Romano.

STATEMENT OF MALCOLM J. ROMANO, PATENT COUNSEL AND ASSISTANT SECRETARY, LEAR SIEGLER, INC., SANTA MONICA, CA

Mr. ROMANO. Thank you, Senator, for the opportunity to testify before this committee.

As patent counsel for Lear Siegler, Inc., my comments are submitted today on behalf of our wholly owned subsidiary, Safelite Glass Corp., which is a major supplier of automotive replacement glass.

Safelite Glass is a major manufacturer and installer of glass replacement parts in the United States. Being in the business for decades, it produces replacement parts for both domestic and foreign cars. All of the glass replacement parts are manufactured in strict compliance and conformity with Federal Motor Vehicle Safety Standard 205. Safelite has major manufacturing facilities in the States of Utah, Kansas, and North Carolina, employing a total of about 2,500 employees in its three manufacturing facilities and its 304 installation centers located nationwide.

Safelite's gross sales exceeded $177 million for fiscal year 1986 and are expected to exceed that amount for fiscal year 1987.

Safelite sells its glass replacement parts in what is commonly recognized as a very competitive market. Some auto companies, like Ford and Chrysler, manufacture their own glass parts and compete with us in the aftermarket. There are also other manufacturers, some of whom supply the auto companies and some of whom sell only in the aftermarket, that compete in this same market. This vital, existing competition, involving a wide range of American manufacturers, could be stifled—if not eliminated—if design protection under this bill foreclosed competitive manufacturers.

Not only does Safelite offer replacement automotive glass and glass installation services, but it also supplies about 66 percent of its auto glass production to small independent glass retail installers, commonly known as "mom and pop" operations, throughout the country.

The proposed S. 791 in its present form provides grave concern to Safelite glass in that a strict reading of the bill could lead to the conclusion that auto replacement glass, despite its totally utilitarian nature, falls within the class of protected designs. If that were to occur, the impact on Safelite would be, indeed, severe.

It is likely that if the present legislation is enacted without the exclusion of auto replacement glass as a "covered design," Safelite's sales and operations could be reduced by at least 50 percent, and eventually by 100 percent, with corresponding manufacturing plant closures and nationwide employee layoffs. Obviously, because of the domino effect, the network of independent installers supplied by Safelite would also be impacted negatively.

Accordingly, we urge that S. 791 be amended to exclude automotive replacement parts and, at a minimum, exclude automotive replacement glass products.

[The prepared statement of Mr. Romano follows:]

STATEMENT

OF

MALCOLM J. ROMANO

CHIEF PATENT COUNSEL

LEAR SIEGLER, INC.

My name is Malcolm J. Romano, Chief Patent Counsel of Lear Siegler, Inc. The following comments are submitted on behalf of Lear Siegler, Inc. and its wholly-owned subsidiary, Safelite Glass Corp. a major supplier of automotive replacement glass.

Safelite Glass Corp. is a major installer of glass replacement parts in the United States and one of the larger manufacturers in the nation of curved and flat laminated windshields and flat tempered safety glass for doors and back windows. It produces replacement parts for domestic and foreign cars. All of its glass replacement parts are manufactured in strict conformity with Federal Motor Vehicle Safety Standard 205.

Safelite has been in the glass replacement business for decades. It has major manufacturing facilities in Salt Lake City, Utah; Wichita, Kansas; and Enfield, North Carolina. Safelite has a total of 2,500 employees in its three manufacturing facilities and 304 installation centers located nationwide. Safelite's gross sales exceeded 177 million dollars in FY '86 and are forecasted to exceed that amount FY '87.

Safelite sells its glass replacement parts in what is commonly recognized as a very competitive

market. Some auto companies, like Ford and Chrysler, manufacture their own glass parts and compete with us in the aftermarket. There are also many other manufacturers -- some of whom supply the auto companies and some of whom sell only in the aftermarket -- that compete in this market. This vital, existing competition, involving a wide range of American manufacturers, could be stifled, if not eliminated, if design protection under this bill foreclosed competitive manufacturers.

Thus we agree fully with Senator Hatch on the impact of the proposed bill on competition in the sale of legitimate after market auto replacement parts. One effect could be to frustrate competition in the auto replacement parts industry, increase the cost of auto replacement parts, and add to the cost of auto insurance for "fender bender" type accidents. Not only might insurance costs rise considerably, but the overall cost of replacement parts resulting from diminishing competition and the possible elimination of parts suppliers, is also likely to occur. As Senator Hatch said, the American consuming public ought to benefit from the extensive price competition that presently exists in replacement parts and that market place competition should not be stifled and be transformed into selective monopolies.

Safelite not only offers replacement automotive glass and glass installation services, but it also supplies about 66% of its auto glass production to small independent glass retailers/"mom and pop" installers throughout the country. It is highly likely that if the

present legislation is enacted, without the exclusion of auto replacement glass as a covered design, Safelite's sales and operations could be reduced by at least 50%, with corresponding manufacturing plant closures and nationwide employee layoffs. Obviously, because of the "domino effect" the network of independent installers supplied by Safelite would also be impacted negatively. Accordingly, we urge that S. 791 be amended to exclude automobile replacement parts and at a minimum exclude automobile replacement glass products.

We are very concerned about the scope of the design protection under the bill. If auto companies are going to try to get design protection for their fenders, they are likely to try secure that same protection for their windshields as well. Or they could try to protect the design of their entire car and attempt thereby to protect all the parts of the car.

Although I could view windshields or other glass replacement parts as a utilitarian item not covered by the bill under Section 1002[4], the provisions of the bill are so broad as to raise the possibility that some might claim that those parts are protectible designs "which are intended to make the article attractive and distinct in appearance." Although the bill excludes designs that are "dictated solely by a utilitarian function," auto companies could claim that there was <u>some</u> design element in the development of a windshield. That could be enough under a strict reading of the bill, to support a claim for design protection. Who knows how the courts might interpret these questions?

Thus, this bill places a serious cloud over our

business. If it is intended that windshields are not to be covered, then crash parts should be excluded and competition preserved. If windshields are intended to be included, then the bill should be rejected.

If the legislation passes without the stated exclusions, the impact on the domestic industry, especially the replacement glass industry, would most definitely be severe. We manufacture all our glass, and buy all of the components, domestically. In contrast, the largest O.E.M. supplier is foreign owned, and many of their manufacturing plants are abroad.

This bill would aggravate an already strained business environment, especially in those geographic sectors already seriously impacted by foreign automobile competition. If such legislation passes as is, foreign car manufacturers will not only have captured over 27% of the domestic U.S. automobile market, but they would also have a virtual monopoly for the supply of replacement parts for their cars.

By passage of the proposed bill in its present form, O.E.M.'s would have substantial, if not sole, control over the auto glass market. The highly competitive auto glass business, which includes at least five major competitors of Safelite, would thus likely be transformed into the restricted business arena that Senator Hatch is striving to avoid.

This is an anti-consumer, anti-free competition, pro monopoly bill.

For the reasons stated above, we ask that the Subcommittee exclude vehicle glass as well as other auto crash parts from S. 791.

Senator DECONCINI. Thank you.

Mr. Fitzpatrick, did you have a statement?

Mr. FITZPATRICK. No, sir.

Senator DECONCINI. Gentlemen, let me ask each of you this question. If this bill were amended to exclude the automobile parts, do you support the bill then?

Mr. ALEGI. Yes.

Mr. FITZPATRICK. I don't believe we would have any concern, although there are—as we said, we expect a lively debate from others that would have problems with the bill. The mass retailers, I know, have filed a letter today indicating concern, but——

Senator DECONCINI. Your answer is no?

Mr. FITZPATRICK. Our answer is probably yes, in terms of ourselves. We are not carrying a burden against the bill generally. We feel that there's no basis for the crash parts industry to be included in the bill, and we would have no quarrel with a bill that excludes crash parts.

Senator DECONCINI. Are you speaking for State Farm?

Mr. FITZPATRICK. Yes.

Senator DECONCINI. OK.

Mr. Romano?

Mr. ROMANO. I would agree.

Senator DECONCINI. The same?

Mr. ROMANO. The same.

Senator DECONCINI. Mr. Hiestand, you state that this is not a trade issue, yet you admit that the competition in sheet metal crash parts is presently coming from overseas. To me, that sounds very much like a trade issue. Don't we have a real problem when the opponents of this legislation are willing to admit that a foreign market exists which is based solely on supplying copies of designs of American-made products?

Mr. HIESTAND. Well, there are some interesting implications stemming from the internationalization of the automobile industry, as we would put it. The competition is from overseas now, and it is saving our customers an awful lot of money. But as I say, the auto industry is in the process of being internationalized; in our home town, Chrysler and Mitsubishi have formed a joint venture to produce automobiles for the Diamond Star Co. When this joint venture was begun, it was estimated that one-third of the parts would be made here in the United States and two-thirds in Japan. With the strengthening of the yen and with the increased productivity of the American worker, that ratio has been pretty well reversed.

Senator DECONCINI. Mr. Hiestand, let me put it to you this way. If the consumer pays a little more in this country and someone overseas gets a job and someone in this country doesn't, do you think that's better legislation than one that would insure that someone that works in this country, even though your customers might pay more?

Mr. HIESTAND. In view of what's at stake over the very short term, I would answer yes. But the point I was leading to is that this industry, this competitive aftermarket crash parts industry, is coming onshore, we're convinced. There are distribution centers on behalf of at least two of the large manufacturers; we're aware of a third manufacturer that's planning a facility to manufacture these

parts in the United States. With an excess capacity of steel, with improved productivity on the part of the American workman, it's bound to happen. And why protect the Japanese makers and say to them, you can make all of your parts in Japan; don't worry about any competition from the United States?

Senator DECONCINI. Because if they come here and build automobiles, they're going to employ Americans.

Mr. HIESTAND. Yes, they are.

Senator DECONCINI. But let me ask this question. You have an example here. This one on my left, I take it, is an American-manufactured automobile part? Is that correct?

Mr. HIESTAND. Yes, purchased from a dealer.

Senator DECONCINI. And what automobile manufacturer makes that?

Mr. HIESTAND. That's a Chevy Citation.

Senator DECONCINI. That's a Chevy. And this is a foreign import part on my right?

Mr. HIESTAND. Yes. Yes.

Senator DECONCINI. I just want the record to indicate this, because before we had a Chrysler part that was far superior to the three imports.

Mr. Hiestand, you mentioned that you believed competitors who sell mufflers and spark plugs, et cetera, would be put out of business because parts they sell would be subject to this design patent under section 1002 of this bill. It seems to me now, and I look for your suggestions here, that the bill addresses what designs will not be protected. One category is "designs that are solely dictated by a utilitarian function." I've asked some constituents in the automobile parts business in my State and they believe that mufflers and carburetors, et cetera, would fall into this category because their shapes are solely utilitarian. Wouldn't you agree with this?

Mr. HIESTAND. If I were in their shoes, I would be very concerned that I would not be able to establish that they are solely utilitarian until I had gone through a very expensive and time-consuming lawsuit in addition. I am not a patent lawyer, so I am not terribly well qualified in this area of law, but in addition, it seems to me that some of these mechanical parts could be altered slightly to be made a little bit more decorative, and perhaps the law would flip over to the other side.

I would be very concerned, if I were they.

Mr. FITZPATRICK. Mr. Chairman, might I just add a few things?

The bill, in section 1001(b)(1), provides that you get design protection on a "useful article." That clearly could be the overall design of a car, like the car silhouette itself. The bill provides that an article which normally is part of a useful article shall be deemed to be a useful article. By definition, there is at least a fair question here as to what happens to parts of useful articles. The bill says "an article which normally is part of a useful article shall be deemed to be a useful article." And so there is a question. If the auto manufacturers would get the design copyright—they would not copyright their fender, but they would copyright the entire design of the car; then every part in that car, under the literal terms of the bill, would be included within the design protection.

I believe that provision is a problem—although I don't want to speak specifically for them—for the largest parts association in the country, the Automotive Service Industries Association. It has over 850 manufacturers and was desperately trying to get their statement to you today for this hearing. I think that they're going to be filing a statement soon in which they express significant concern with the outer reach of this design protection.

Senator DECONCINI. Well, if we tighten that up, if it would not encompass the whole automobile, would that make you feel better?

Mr. FITZPATRICK. Well, that might make them feel better. It wouldn't make us feel any better as long as Chevy wants to copyright its fender. Thus you couldn't get this nonrusting fender, but you can only get this rusting fender.

Senator DECONCINI. But the nonrusting fender, of course, is made out of the country——

Mr. FITZPATRICK. Taiwan.

Senator DECONCINI. This fender, rusting or not, is made by Americans who pay taxes here and ought to have some objection, it seems to me, to these imports that come in. Of course, they're just as good, we're told, so it doesn't make any difference as to quality.

Mr. FITZPATRICK. Two points. The bill, we would suggest, is overbroad because it would preclude what all of us are hoping will be onshore crash parts production. The bill is quite categorical. The bill is not drawn in terms of offshore or not offshore; it would preclude opportunities to bring plastic crash parts production onshore.

The second thing is that there is a significant amount of present onshore protection, such as Mr. Romano's company, which is manufacturing glass——

Senator DECONCINI. Well, I understand that. But your client—Mr. Hiestand—indicates that most of the parts, regarding his concern from his company, come from overseas.

Mr. FITZPATRICK. The sheet metal and plastics do. We're also quite concerned about glass; we're the largest purchaser of glass as well, so we don't have anything but an intense interest that we can continue to have competition in auto glass.

Senator DECONCINI. But what if you applied this law only to offshore producers?

Mr. FITZPATRICK. Well, that would have the practical, current effect of destroying the crash parts competition. Congress would have to make that judgment. And there would be a very significant——

Senator DECONCINI. Well, it wouldn't destroy the competition in the glass industry because it's made here, right?

Mr. FITZPATRICK. It would return the monopoly to the manufacturers, and the Chrysler part that we refer to in our statement that is now $87 would go up to——

Senator DECONCINI. But we don't know that somebody wouldn't try to manufacture this in this country, do we?

Mr. FITZPATRICK. We know that for decades, no one tried because of the dominance of the auto industry. We are now working hard to get onshore manufacturers to get into this business. There is going to be a period of time until one can get that, move toward that.

Senator DECONCINI. Well, if this legislation did pass, wouldn't that encourage onshore manufacturing of these parts?

Mr. HIESTAND. Not necessarily, Senator. We have made inquiries in an effort to tap this excess capacity of steel. Unfortunately, each steel company sells most of its steel to the automobile industry, which is not terribly interested in having them use the rest of the steel to make parts which would compete with them. I suspect they would continue to feel the same way.

Senator DECONCINI. We import steel into this country. I don't know what the figures are—I've seen them—but it's an ever-increasing amount, so there doesn't seem to be any shortage of steel in this country, if you're talking about steel fenders or fiberglass fenders or something like that.

My point is that if this bill did pass, and there's such a market for this, isn't it safe to conclude that there would be manufacturing of these parts—such as there is in your business, Mr. Romano—rather than just closing it down and leaving it only to the original manufacturer?

Mr. HIESTAND. I'm afraid not.

Senator DECONCINI. Why not?

Mr. HIESTAND. If the bill passes, as Mr. Fitzpatrick said, competition would virtually cease—well, obviously, it would have to cease—from overseas. This movement toward bringing this industry onshore, I'm afraid, would come to a halt.

Senator DECONCINI. But you don't know that, just like I don't know it.

Mr. HIESTAND. I don't know it, and we would make every effort to bring it onshore. We talked to a very large supplier of parts in Canada; they were very interested. Thirty days later, they had lost interest. Whom did they talk to in between? I don't know.

Senator DECONCINI. But if this bill passed, that would encourage you a little bit more to bring them onshore, isn't that correct?

Mr. HIESTAND. We would have no other recourse.

Senator DECONCINI. Well, your other recourse would be to raise your cost to your customers to pay for the "genuine" part.

Mr. HIESTAND. You're referring to a bill which would only exclude foreign competition.

Senator DECONCINI. That's right. That's right.

Mr. HIESTAND. We would have no choice.

Senator DECONCINI. Would you like to comment?

Mr. ROMANO. Yes, I'd like to comment, Senator. If the design protection were to subsist in the owner or the author, which would be the original equipment manufacturers, then Safelite would not be able to——

Senator DECONCINI. No, I'm not talking about that. I'm talking about offshore. This would only apply to offshore, so some company like yours could go ahead because you are producing and manufacturing here.

My question to Mr. Hiestand is what would happen if it applied to the offshore so they could not import the foreign parts like we have here before us.

Mr. ROMANO. I see.

Senator DECONCINI. And he said it would destroy competition, as Mr. Fitzpatrick said.

Mr. FITZPATRICK. What would be the implications in terms of GATT to have intellectual property protection only for domestic manufacturers but not for foreign manufacturers?

Senator DECONCINI. Well, if you look at the intellectual protection in foreign countries, as you may have done, Mr. Fitzpatrick, it seems to me like they pretty well ignore GATT. We have just now got them to agree that intellectual property will at least be considered in GATT. We've been adhering to GATT. We've never gone in any direction, in my judgment, except to generally let these foreign importers absolutely beat us to death and take our jobs. I'm interested in not only the intellectual property side of it but trying generally to find some other solution. I don't say that this bill is it, but I appreciate your candid comments. If your position is that it's going to destroy competition in this business, I have to accept that as at least your professional opinion. I don't agree with that because I think the competition would rise here, but I respect your judgment from your industry's point of view.

Mr. FITZPATRICK. I must say that that judgment is shared by the people who are regulating the insurance industry and worried on a day-to-day basis about keeping policyholder costs down.

Senator DECONCINI. Well, the people who regulate the insurance industries are the State organizations, primarily; and as you know, this is not a hearing to get into that subject matter. There is another Senator on this committee that has that high on his agenda. And there certainly are plenty of arguments made regarding what kind of a relationship that the insurance industry has with those local and State organizations, so I don't care to debate that here with you. I think we'll have another time to do that, Mr. Fitzpatrick. Hopefully you can appear before Senator Metzenbaum's committee.

Mr. FITZPATRICK. I think our chance will be coming up. We'll lay it on the block this spring.

Mr. HIESTAND. Well, the commissioners do share our concern about cost pressures which continually push the insurance premiums up——

Senator DECONCINI. I do too and I think that's very legitimate. That's why you're here so we can listen to your concerns. The heavy problem for some of us is, what is more important? Is it more important to have a vital economy and jobs here? Consumers may pay more, but that's something this country really hasn't addressed. Or if we've addressed it, we've just let it go and said just come on, bring them all in, and those who have jobs can pay for them. Those that have jobs, you and I, pay for it in greater welfare benefits and unemployment compensation and bigger deficits here.

Mr. HIESTAND. We would predict that this competitive industry will bring more and more jobs to this country if it's allowed to flourish and compete.

Senator DECONCINI. That's on the assumption that you're going to entice them to come here and manufacture these items.

Mr. HIESTAND. We are determined that we will do everything we can to bring them in.

Senator DECONCINI. I hope you're successful.

Mr. FITZPATRICK. Under this principle, the auto companies shouldn't be able to out-source abroad for some of their parts.

Senator DECONCINI. Excuse me?

Mr. FITZPATRICK. Under this principle, the same principle, auto companies should not be able to go abroad for any of their manufacturing capacity. And I would think that GM and Chrysler and Ford would throw a fit if the Congress would say that they cannot go abroad for part of their production.

Senator DECONCINI. Well, they've done that because we have failed to do anything in this country. They've been asking us for years to do something about it and we haven't. We don't even have the gumption to ask for voluntary quotas from our trading partners. What can you expect the automobile industry to do but try to survive? So they've done that out of the lack of Congress and leadership in our Government, in my judgment, to respond to the loss of jobs and everything else that is affiliated with the automobile industry. I think they have every reason for having done what they have done. If you talk to them, they didn't want to do it but that was the only way they could survive.

Mr. FITZPATRICK. Well, we didn't want to go abroad either, if the auto companies didn't have a monopoly in their crash parts. We've been trying for years to break their sole control over the manufacture and distribution of their crash parts. We did not go abroad frivolously. We went abroad; we looked abroad for the same reason that auto manufacturers looked abroad, because there were opportunities to produce quality parts cheaper there. And we would prefer to be in this country, buying here.

Senator DECONCINI. Good. I hope you have success in bringing some of those companies here. You will have done a great thing for this Nation if you get some of them to come here, because you'll be employing Americans.

Thank you very much, gentlemen.

[Whereupon, at 4:04 p.m., the subcommittee was adjourned.]

APPENDIX

ADDITIONAL STATEMENTS AND COMMENTS

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April 8, 1987

Senator Dennis DeConcini, Chairman
Subcommittee on Patents, Copyrights, and Trademarks,
Judiciary Committee
U. S. Senate
327 Hart Senate Office Building
Washington, D.C. 20510

SUBJECT: STATEMENT CONCERNING THE INDUSTRIAL INNOVATION AND TECHNOLOGY ACT, S.791 (100TH CONGRESS, 1ST SESSION)

Dear Senator DeConcini:

I appreciate the opportunity to present my views on the subject legislation and I request this statement be included as a part of the hearing record. My comments will be directed primarily to questions asked by you and Senator Hatch at the hearing on 3/27/87, on topics where further input appears useful.

The Questions, in condensed form, were:

1. Why did the fashion industry reject industrial design registration?

2. What subject matter is covered by a design registration?

3. What are the industrial design protection laws in other countries?

4. Should the U.S. give special treatment for U.S. companies on industrial design protection?

Before I answer these questions, I want to put in the record several recent articles (copies enclosed) that show the importance of industrial designs to our economy.

CURRENT ARTICLES

Briefly, one of the enclosed items shows data gathered from Business Week magazine that reports the dramatic increase of

imported products in selected industries, some of which rely on industrial designs to create market demand. The incentive to create new product apprearances to compete with these imports is a part of the role played by the intellectual property system. Unfortunately, as stated clearly by Judge Rich and others at the hearing, the present U.S. industrial design protection system is not effective. The other articles highlight the critical importance of industrial design to product marketing. For example, the titles include: "Looking Good: More Firms Place Higher Priority on Product Design, Wall Street Journal, 1/22/87, page 3, "As Awareness of Industrial Design Grows, Firms Start to Use it as a Marketing Tool", Wall Street Journal, 2/23/87, and "Forsaking the Black Box: Designers Wrap Products in Visual Metaphors", Wall Street Journal, 3/26/87, page 39. The other two newspaper articles bring out the effect of copying in the safety of products, Washington Post, 1/23/87, page E5, discuss the designer's role, Wall Street Journal, 1/22/87, page 33, and report the comments of a number of industrial designers and companies on the need for improved industrial design protection in the U.S., Wall Street Journal, 10/2/85, page 35.

MY BACKGROUND IN INTELLECTUAL PROPERTY LAW

As a full time law professor for over 12 years and a teacher in the field of intellectual property law for over 16 years, I have studied the industrial design legislative proposals. In addition, I was charman of the American Bar Association, Patent, Trademark, and Copyright Section Committee 305 on industrial designs from 1982 through 1986. In 1982 I presented a paper (copy enclosed) at an ABA symposium analysing an earlier version of the proposed legislation. While the legislation has changed in a few important areas, the basic concepts are the same. I refer you to this article for an overview of the legislation and a detailed analysis of certain parts. I participated in the drafting of changes to the legislation while chairman of the ABA committee and I support S. 791 which incorporates these changes. I do note that the ABA, PTC Section has endorsed in principle protection of typeface under this legislation and I support that position, as another industry that is protected poorly under present industrial design protection laws. The legislation should make it clear the extent of that protection.

I must add I had the privilege of receiving comments from the Professor Latman, now deceased, of New York University Law School at the time I prepared the above-mentioned paper. He is truly the father of the movement to improve industrial design protection laws and should be given the credit deserved. In addition to the material sent with this statement, I have extensive files, with letters and other evidence of the designer and company concerns, gathered during my tenure as ABA committee chairman. I seems to me you have ample evidence in the record already on the problem, so I will not burden the record with more. If you do need more documentation, please let me know.

QUESTION 1 - WHY DID THE FASHION INDUSTRY REJECT INDUSTRIAL DESIGN REGISTRATION PROTECTION?

The aforementioned paper discusses the history of the fashion industry consideration of prior legislation similar to S. 379. In footnote 20 and the related text a detailed analysis is given of this history. The records indicate that the fashion designers and sellers both agreed the life cycle of the product was so short and the way market behaved was so unique that it did not warrant a design registration system. The situation is different for other industries effected by industrial designs, speaking

generally. Designers and manufacturers that originate products want protection and they have made a good case that protection will be fair and prevent look alike copying. It will serve the economic goals of the country. On the opposite side of the debate, as is the case where intellectual property rights are involved, stand the copiers, unwilling to make a product that looks different and competes using its own, distinct appearance. The exclusion of semiconductor chips in the legislation, Section 1002(a)(6) is because there is a law already that protects this subject matter, and all parties concerned, except the copiers of course, are satisfied with the protection (17 U.S.C.A. Sections 901 - 914).

QUESTION 2 - WHAT SUBJECT MATTER IS COVERED BY A DESIGN REGISTRATION?

You asked one of the insurance company lawyers why there was a problem in building a replacement part, since the legislation specifically allows parts to be built as long as the appearance is different. You pointed out that Section 1002(a)(4) eliminates design features that are soley dictated by function. I might add here, and it relates to question 3 below, that essentially this same test is used in most other countries, and they find it workable, as far as I can tell from my research and conversation with foreign professionals. The reaction of your constituents that you reported, to the effect that they were not worried about this legislation because they can build parts to do the job without using the same appearance, is correct in my opinion. If there is a design feature that is necessary, the only way to produce that function, your constituent has legislative authority to use that design feature. They can use the design features necessary to connect the part to a machine, if these requirements are essential to the operation of the part. The legislation provides a standard that is workable. The point is that usually there are a lot of ways to build these parts with different appearances. When you look at a design, the features that are excluded by Section 1002 are not protected. The other features of that design are protected, if they are distinctive. Section 1003 makes that analysis approach clear.

Another important point in the legislation is that the some design features are not protected because they are not distinctive, such as common design symbols. The provisions in Section 1002(a)(2) and (3) set a bottom threshold, excluding these designs. This approach is used in many countries and has been found to be workable. In fact, the U.S. copyright law has a similar standard applied by the courts and the Copyright Office and it has been found workable. I refer you to my enclosed article, pages 7 and 8, Items D and E, for the detailed analysis.

QUESTION 3 - WHAT ARE THE INDUSTRIAL DESIGN PROTECTION LAWS IN OTHER COUNTRIES?

A book could be written on this topic and resource materials exist on the details of foreign laws. I reviewed some of these materials recently and found that the protection formats fall in three basic groups. One group uses copyright law, like our copyright system (Title 17 U.S.C.) to protect industrial designs along with artistic works. The information I have indicates they have no difficulty, generally, in applying this approach. Some have questioned whether the life of author plus 50 years that is provided is too long a term of protection and there are some special approaches for some subject matter. The second group has both copyright and a separate industrial design registration system with some overlap, i.e., some items can be protected under both systems. The design registration usually gives exclusive

rights, not just the right to prevent copying, and the life of protection is longer than the proposed legislation. The third group permits industrial design protection only in a separate registration system, with longer life of protection than proposed here. In none of these systems is the standard as high as the U.S. for obtaining design protection. As Judge Rich explained, The U.S. design patent law uses the same standard as the utility patent law, where an examiner has to determine what skill level exists for a particular product design. The foreign systems create a lower standard that is more easily applied and fairer to the design owner. The U.S. standard makes its system effectively useless for most designs, as you hear from the testimony, and I can confirm that opinion.

QUESTION 4 - SHOULD THE U.S. GIVE SPECIAL TREATMENT FOR U.S COMPANIES ON INDUSTRIAL DESIGN PROTECTION?

This idea has come up many times in our professional meetings. It is a natural approach. The problem is that the international intellectual property treaties, particularly the treaty generally known as the Paris Convention for the Protection of Industrial Property, prevent discrimination between nationals and foreigners on industrial design rights under our laws. The Paris Convention is based on equal treatment for anyone applying for protection under U.S. industrial design laws. Our citizens have the same rights, to equal treatment under a foreign members's laws. The trade restrictions apparently are not governed by such clearly written treaties. I can elaborate on this answer if your desire.

CONCLUSION

I found the hearings on 3/27/87 very informative. I urge you to proceed promptly with this important legislation. If I can be of any assistance, to help clarify a point, please feel free to call on me.

Respectfully submitted,

W. T. Fryer III

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pages 94 and 95
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Designers Want More Protection from Imitators,
Wall Street Journal, 10/2/85, page 35

Looking Good: More Firms Place Higher Priority on Product Design, Wall Street Journal, 1/22/87, page 3
Harsh Words for Business from Noted U.S. Designer, Wall Street Journal, 1/22/87, page 33
Counterfeit Bolts Used in Nuclear Units, Washington Post, 1/23/87, page E5
As Awareness of Industrial Design Grows, Firms Start to Use It as a Marketing Tool, Wall Street Journal, 2/23/87, page 27
Forsaking the Black Box: Designers Wrap Products in Visual Metaphors, Wall Street Journal, 3/26/87, page 39
Protection of Ornamental Designs of Useful Articles - The Legislative Opportunity, by William T. Fryer, III, published in American Bar Association, Patent, Trademark, and Copyright Section Proceedings, 1982, pages 162 - 193.

BUSINESS WEEK, 10/7/85, Article "The New Trade Strategy", Pages 90-96

Economic Data	Imports As Percent of the U.S. Market	
U.S. Industry	1972	1984
Blowers & Fans	3.6	29.2
Electronic Computing Equipment	0.0	14.2
Lighting Fixtures	4.2	17.2
Printing Trades Machinery	8.5	22.9
Radios & TV Sets	34.9	57.5
Luggage & Personal Goods	20.7	52.4
Musical Instruments	14.9	25.2
Power-Driven Hand Tools	7.5	23.2
Sporting & Athletic Goods	13.0	23.2
Telephone & Telegraph Equipment	2.1	13.1

ADMINISTRATION "FAIR-TRADE TECHNIQUES" POLICY STATEMENTS

In his Sept. 23 speech, the President announced a series of actions designed to deflect pressure for extreme forms of protectionist legislation. Reagan's "fair-trade" plan relies heavily on administrative remedies: government-initiated complaints against unfair trade practices; speeded-up processing of "injury" claims by domestic industries; tighter rules against copyrighting and counterfeiting; a $300 million war chest to allow the Export-Import Bank to counter foreign subsidies; and a push to convene a new round of trade talks under the General Agreement on Tariffs & Trade (GATT).

Business Week, 10/7/85
Pages 92 & 93

The Administration also plans to speed the often leisurely process of investigating complaints from domestic industries. In addition, the Customs Service will crack down on copyright and trademark violations by U.S. trading partners, most notably Taiwan.

Business Week, 10/7/85
Page 93

tion at gun point would take away the judgment of the Administration," says Bruce Smart, Commerce Under Secretary for international trade. "There is a danger that international security interests will be slighted."

But Congress is less impressed by abstract foreign policy arguments than by what has been happening to America's farms and factories. Over the past year industrial production has risen by only 1.3%, and employment in manufacturing stands 1.6 million below the peak set in 1979. Agricultural exports in the first quarter of this year were only $6.9 billion, down by 35% from the peak of early 1981. "The trade deficit is the Achilles' heel of Reaganomics," says political consultant Phillips.

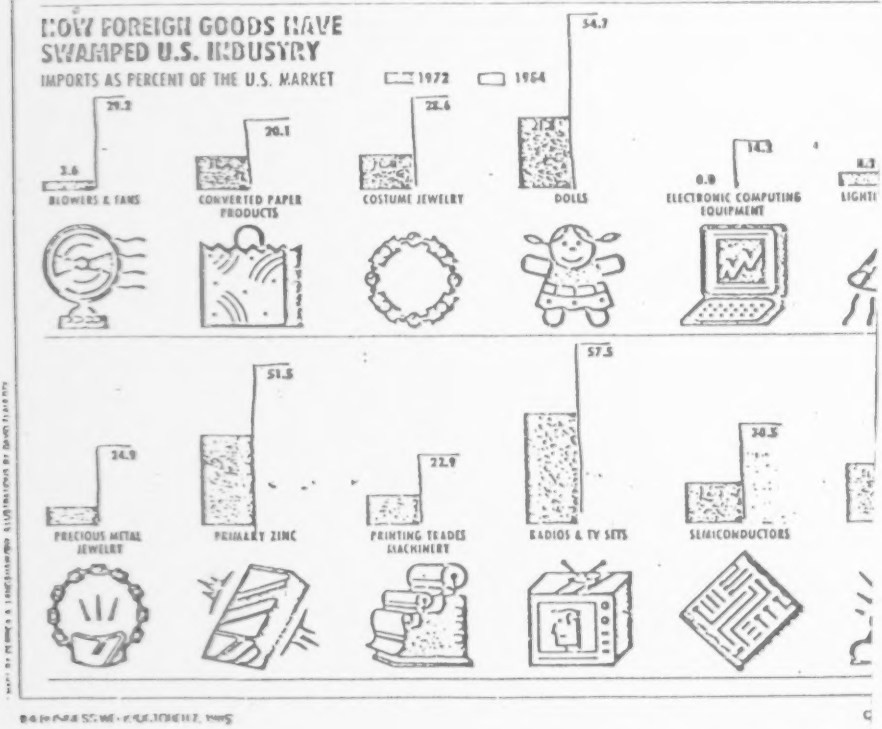
OPENING BID? There's irony here for Reagan. For years, he fanned nationalistic fervor to build support for his hardline foreign policy. Now this fervor is fueling demands for a tough trade policy. "The President ran on a pledge that 'America is back,'" says Representative Richard A. Gephardt (D-Mo.). "That's not true in trade. We're not a winner, and we're not strong."

Sensing Reagan's vulnerability on trade, Democrats this year began pushing for the 25% import surcharge on products from countries that run a big trade surplus with the U.S. But a development in East Texas' First Congressional District probably did more to trigger Congress' stampede toward protectionism than any specific bill. In an Aug. 3 special election, seen as a key test of GOP hopes for realignment, Democrat Jim Chapman beat back a well-funded challenge from Republican Edd Hargett by charging that his opponent's hands-off trade stance would cost Texans jobs. Congressional Republicans, convinced that "Texas One" gave the Democrats a potent new issue to use in 1986, reacted by embracing protectionism.

The Administration now believes that the one-two punch of a slightly more aggressive trade policy and a prospective dollar devaluation has given Republicans a shield to fend off Democratic attacks. "Look," says one senior White House strategist, "we're telling our ple in Congress that our package is opening bid, and we'll accept a l hardening so long as things don't out of hand. That, plus the gro backlash to a trade war should enal to get matters under control again

Perhaps. But trade experts are less sanguine about the long-term look. Each year for the past decade, timent for trade retaliation has gr The idea of restricting trade has g respectability among politicians, ness executives, and a small but g ing number of economists. "There' most no constituency left for trade," remarks the GOP's Phillips. great fear of international trade sp ists is that if the economy slumps year, protectionism will explode an and neither Ronald Reagan nor any er politician will be able to stop it.

By Lee Walczak, Stephen H. Wilds and Blanca Riemer, with Ronald G Boyd France, and Carla Anne Robb Washington, Sarah Bartlett in New and foreign bureau reports



PROTECTIONISM ISN'T SUCH A DIRTY WORD ANYMORE

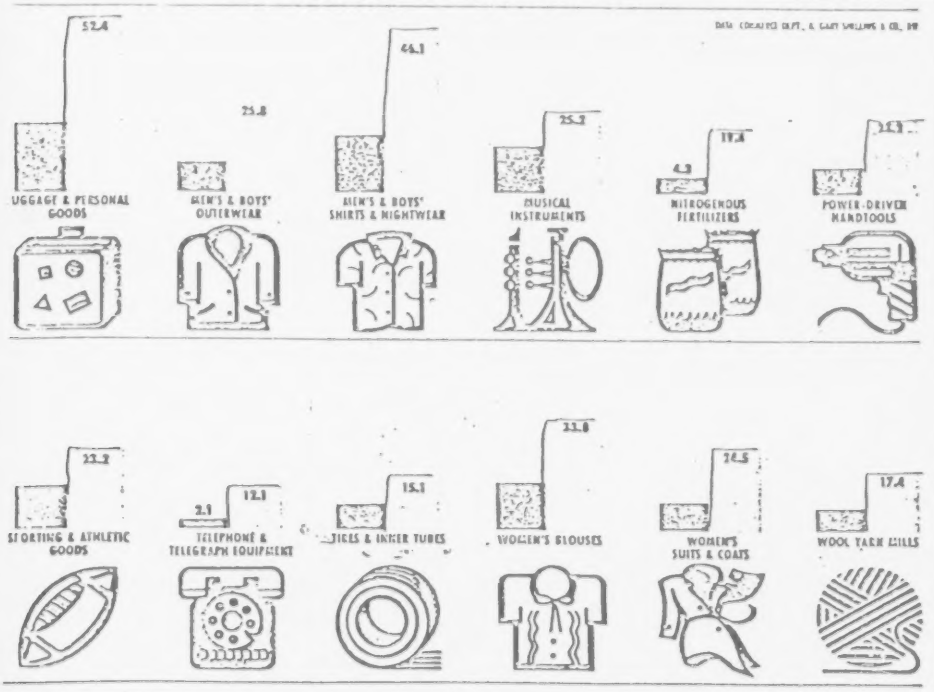
President Reagan's tougher stance on trade has a surprising amount of support among economists, long the sturdiest advocates of free trade. Economists still regard protectionism as dangerous. But a growing number are arguing that sticking unswervingly to a free-trade doctrine may not be in the best interests of the U.S. when its trading partners are increasingly not playing by the rules. With protectionism increasing around the globe, these economists believe that the benefits of imposing higher tariffs on some imports might well outweigh the costs.

Although consumers have been enjoying the cheaper goods cascading into the U.S., the trade deficit is exacting an enormous toll on U.S. industry (chart). It has already cost 1.8 million manufacturing jobs and put a tight lid on economic growth. And that's only the beginning: The costs of the trade deficit will continue to escalate if nothing is done. According to most estimates, the trade shortfall will run at about $140 billion to $150 billion annually for the rest of the decade if current trends continue. To many economists, that spells a recession. "I think we could have a recession by 1987, and I believe the trade deficit will be a principal reason," says Alan Greenspan, chairman of the Council of Economic Advisers under President Ford.

If the red ink flowing from the trade accounts is not stanched, the U.S. could also owe foreigners about $1 trillion by 1990. The interest payments alone on $100 billion annually.

Less obvious than the macro costs are the losses to high-tech industries, where the U.S. operates on free-trade principles and major competitors do not. Paul R. Krugman, a Massachusetts Institute of Technology economist and a leader of the so-called new-wave theorists, argues that high-tech industries—where technology changes and spreads so fast—might benefit from protection. "If a government can ensure such industries a dominant position, it can capture jobs and profits for its own country," says Krugman. "There is a reasonable, though not watertight, case that the Japanese government gave its semiconductor producers the edge by restricting the market and that they have garnered extra returns."

COUNTERMOVES. It is not just a band of young Turks who are worried about the impact of unfair trade practices on high-tech industries. "The net result of Japanese actions since the 1950s has been systematically to deny U.S. producers the profits of innovation," says Harvard economist Henry Rosovsky. "In optical



WALL STREET JOURNAL, October 2, 1985, Page 35

Designers Want More Protection From Imitators

By Linda Lehrer
Staff Reporter of The Wall Street Journal

A few years ago Hillenbrand Industries Inc. introduced a line of side-pleated soft luggage under the American Tourister name. In just a few months, six other companies were marketing copycat versions.

Hillenbrand found, however, that it could do little to control such imitators. For though original works of art are protected by copyright and inventions by patent, the design of a functional object is fair game for imitators.

Design patents exist but are difficult to obtain and even harder to uphold in court. Only half the patents filed are granted, says William Thompson, a patent counsel for Caterpillar Tractor Co. And of those granted, about three out of four are held invalid by the courts, he adds.

In this vacuum, the copycat market has flourished. A recent International Trade Commission report estimates that American business loses nearly $5 billion and 131,000 jobs annually to counterfeiting, a term that also applies to pirated products bearing phony trademarks, like fake Gucci handbags.

Discourages Innovation

"Industrial-design counterfeiting never goes away," laments Thomas Lowy, head of the lighting-design firm Koch & Lowy. Mr. Lowy says that patent attorneys have advised him not to waste time and money applying for design patents that in the end don't afford protection. But he contends, "Without design protection there is no innovation. That's why, at this point, the U.S. can't compete with foreign design."

Gary Newtson, chief patent counsel for Chrysler Corp., concedes that his company wasn't concerned with design protection 20 years ago. "We weren't being hurt by offshore copyists at that time," he explains. Today, however, the American automotive industry is beset by a steady stream of copycat parts for Chryslers, Fords and other U.S. cars.

As soon as a new model rolls off the assembly line, "copyists in Taiwan pick out the most crash-prone (and thereby most frequently replaced) parts to duplicate," Mr. Newtson says. For example, fenders made in Taiwan from inferior materials are sold in the U.S. as parts for Chrysler cars. Not only do these fenders rob Chrysler of customers for its own parts, Mr. Newtson complains, but when they quickly rust and deteriorate, it sullies the image of the entire car. "We lose goodwill," he says. "We could lose a car customer as well as a fender customer."

The cumbersome quest for a design patent—typically a two-year process—is all but useless for fashion products with short life spans. That was true for American Tourister, which was finally granted a patent last February, nearly three years after it applied. That date, says company attorney Brian Leitten, "coincided almost exactly with the end of the life cycle of the product." And patents don't provide retroactive protection, he notes.

Thwarting Counterfeits

Kazuo Tanaka, a principal of Tanaka Kapec Design Group in South Norwalk, Conn., says that all an imitator need do is "change a small feature and the court will say it's not the same design." Thus, he adds, designers often try to create pieces with intricate features that are costly to copy.

Or, they try Adam Tihany's ploy. "I knock myself off before someone else does," the New York architect and product designer says. If a product lends itself to both a limited and a commercial market, Mr. Tihany says, he designs a small line of signed and numbered handmade pieces as well as a popular, less expensive line.

Some companies see salvation in H.R. 1900, a bill before Congress that would extend copyright protection to designs, making them easier to register and more likely to be upheld in court. Designers argue that the U.S. lags other countries in protecting design. Great Britain and France, for instance, have industrial design and copyright laws. In 1976 Congress stiffened the copyright law as it applies to music, records, video and art—and even broadened protection last year to include computer chips—while pointedly ignoring design.

The proposed bill would no longer require a product to meet the so-called standard of unobviousness, which now demands that an object be new by a sufficient margin from things already in existence. "It's a subjective test not really geared to design," says Mr. Thompson of Caterpillar Tractor, noting that designers often create products to resemble something else.

That was certainly the case with Model & Instrument Works Inc. The Seattle company developed a prosthetic foot with a cosmetic surface that simulates musculature, veins and skin. But the firm, says designer David Moeller, was denied a patent because the foot, of course, resembled something already existing. Says a rueful Mr. Moeller, "God designed it first."

Good Design Puts Firms Place Higher Priority on Product Design

WSJ 1/22/87, p33

By Stephen MacDonald
Staff Reporter of The Wall Street Journal

A few years ago, NCR Corp.'s product design was, frankly, pretty dull. "Design wasn't a part of the corporate strategy at all," says Jack Beduhn, the current design director. "There wasn't any plan for it. If a good design happened, it was because it just happened."

No more. Today NCR, which makes office computer systems, retail and financial terminals and other business equipment, has prize winning design management, and design has been elevated from a relatively minor technical service to a strategic business activity. Where once product designers toiled deep in the engineering department, far removed from top management, Mr. Beduhn reviews his plans with Chairman Charles E. Exley Jr.

More big companies are inviting designers into the executive suite these days. Some, like International Business Machines Corp. and Apple Computer Inc., seem to have been born design-conscious. Others, like NCR, Xerox Corp., Polaroid Corp. and Ford Motor Co., have recently moved to make better use of design.

A Short List

The list of "design leaders" isn't long; among major U.S. corporations, perhaps a dozen or so are mentioned again and again. But many design professionals believe these companies are harbingers of a design renaissance.

"Strategic design is the agenda for the future for all corporations of all sizes," says Arnold S. Wasserman, vice president, strategic planning, at RichardsonSmith Inc., the Worthington, Ohio, design consultant that helped develop NCR's strategy and a similar one at Xerox.

Not everyone shares that rosy view (see story below), but business is clearly taking a keener interest in design. The Design Management Institute, established in Boston 10 years ago to encourage corporate design management, reports its membership rose 65% last year. Its director, Earl N. Powell, says the institute's seminars have been setting attendance records and its annual conference sold out.

The reason is the increasing ferocity of domestic and foreign competition. "Companies can no longer sustain an advantage based on technology or domination of market," says Mr. Wasserman. "They have to find new ways of adding perceived value to their goods and services. More companies are learning that design is one of the strengths they can nurture."

One basic lesson is that good design can sell a product, maybe even improve an entire company's fortunes. Designers everywhere regard the dramatic success of Ford's Taurus/Sable models—the so-called "aero jellybean"—as a triumph of their profession. "The aero look was a major design statement by Ford," says Peter Wooding, president of the Industrial Designers Society of America, "and it has taken off for them." Jack Telnac, Ford's chief design executive, says his department's status in the company is rising right along with sales and market share.

But a good design is one thing and coherent design management another. Says Ralph Caplan, a design consultant and design writer, "It's fairly easy to come up [illegible] a collection of well-designed products, but there's a short list of companies that consistently manage design well over the full spectrum of their activities."

Apple's Macintosh, Polaroid's Spectra, Ford's Mercury Sable

One company on even the shortest lists is IBM. Despite occasional lapses—the PCjr "chiclet" keyboard, for example—IBM has been long been widely regarded as a design leader. According to Walter F. Kraus, manager, IBM design program, the actual design of a single product—how it works, its appearance, efficient manufacturability and so on—is only the most obvious of design's functions.

Beyond that is what Mr. Kraus calls "the communications-image sense," in which design is recognized as the visible incarnation of the company's personality. IBM orchestrates every activity that involves design, not only products but also advertising, promotion, instructional materials, displays—even the letterheads and signs on trucks. "We want to be sure," says Mr. Kraus, "that the collective effort of the design program helps focus the character of the corporation and presents it correctly to our many publics."

Apple's approach is similar, and its Macintosh personal computer provides an example. Clement Mok, an Apple creative director, says: "We see ourselves as a company that designs tools to help people communicate, learn, work and create. The challenge for our department is to market that perception, to amplify the desired image as clearly as possible."

One image desired for the Macintosh was simplicity. From beginning to end, says Mr. Mok, "all nonessentials were stripped away. Everything was challenged. Do we really need that circuit board? Do we really need that key? Do we need that extra menu? And the theme carried into the graphics, the packaging, the product literature. Do we need that grid background? In every case, we chose to be frank and direct."

Another theme grew from the Macintosh designers' conviction that their product wasn't merely a machine but a work of art. To support that notion, the company developed packaging and other graphics that were artful. "We could have used slick, high-gloss photography," says Mr. Mok, "but instead we chose a simple hand-drawn look, and we carried it throughout everything in the product line."

Similarly, Polaroid is using design to target a more "upscale" customer. Michael J. Benes, director of design, cites the company's newest product, the Spectra, designed for Polaroid by Henry Dreyfuss Associates, as an example. "Every aspect of the camera is designed to appeal to that audience," he says.

For example, in choosing the color—a dark, metallic grey—Mr. Benes says, "We looked at fancy European automobiles, like Mercedes and BMW. We avoided bright colors, like red or yellow, because they're toy-like, but we wanted something more stylish than black, which has become a standard camera color."

The camera's form is thin and fits in the hand "like a pair of binoculars," says Mr. Benes. "The information on the camera resembles a car dashboard."

But, says Mr. Benes, "to manage design properly, you don't just look at one product or one package or one brochure. It's the totality of the effort. Everything contributes to the new image, right down to the data sheets and order forms." So the Spectra's package and point-of-sale graphics have "elegant photographs of scenes in the Bahamas or a beautiful woman" rather than pictures of the camera. And the photographs are displayed with lots of space around them, "so that subliminally they look almost as if they're framed."

Senior-Level Commitment

A design charter as broad as these requires a breadth of authority that many companies have been loath to accord designers. But, says Peter G. Lawrence, chairman of the Corporate Design Foundation, a nonprofit group that among other things studies the role of design in business, a design program can't succeed without top-level involvement.

"Clients come to me and say, 'How can we become a design company?' " says Mr. Lawrence. "They're looking for a formula, and there isn't any, because every company is different. But there is a common denominator, and that's the commitment at a senior level that design will be a priority for the corporation."

In a way, that attitude comes full circle to the relationship design enjoyed with management in the 1920s and '30s. Says Mr. Wasserman: "Raymond Loewy, Henry Dreyfuss and the other great designers of that era were all outside consultants, and they all tended to be hired by chief executives. They worked day-to-day at the highest levels of the company, where they could feel its pulse.

Harsh Words for Business From Noted U.S. Designer

For all of business's growing interest in design, one prominent U.S. industrial designer isn't impressed.

"American design is falling behind," says Niels Diffrient. "I think it's destined to get worse before it gets better."

Mr. Diffrient's opinion counts because, in addition to being one of America's most visible industrial designers, he is widely respected as an observer of both the design and business worlds. He designed scores of products in his 25 years at Henry Dreyfuss Associates, New York, before leaving to establish his own practice in rural Connecticut six years ago. He has served as a designer or consultant to a Who's Who of corporations, including most recently General Motors Corp., Ford Motor Co., Phillips Corp. and Texas Instruments Inc. Although he writes and lectures widely, he is perhaps best known for the chairs and other office systems he designed for Knoll International and Sunar/Hauserman.

No Understanding

Mr. Diffrient believes the top management of American corporations doesn't understand or appreciate design. He contrasts this with the period, earlier this century, when entrepreneurial managers and entrepreneurial designers teamed up to make innovative products.

"As time goes by," he said "the old benevolent dictators who had a real love for the product have disappeared.

"You can't get innovative design unless you have owners who are product oriented. There are very few of them, and they have the burden of boards of directors and stockholders who want immediate returns. If they're not too busy worrying about takeovers."

On top of that, he says, fear of product-liability suits stifles innovation. Companies stick with existing designs, perhaps slightly modified, rather than bring out innovations that could attract lawsuits. "The lawyers," said Mr. Diffrient, "are out to bleed anyone they can. Companies are getting scared. They won't take risks, and without risk you have no product."

He strongly dissents from the view that there is a new interest in managing design well. "Management will give design lip service," he said, "but when the pressure builds up for short-term results, design is easy to obliterate. It doesn't have the obvious bottom-line increment that advertising, marketing and engineering have.

"In most people's minds, design is a frill. It's something Ralph Lauren does."

When asked about companies widely regarded as design leaders, he dismissed much of what they do.

Niels Diffrient

"IBM?" he said. "IBM is running on momentum. Tom Watson . (the founder) and Eliot Noyes (the designer Mr. Watson retained) set it up. What's IBM doing today? Nothing earth-shaking. For a company its size, it ought to be better.

"Apple? Steve Jobs (the co-founder, who has since left the company) is quirky. He likes design. So he brought in a German design company and gave it the power and prestige to do the job."

Learning From Europeans

"Ford is doing well, but you can hardly call it a design leader. It learned its lesson from the Europeans. All it had to do was copy a German design, which in Detroit seems so monumentally difficult a task that GM hasn't been able to do it yet."

Mr. Diffrient doesn't blame designers for any of this. "American designers are well equipped to do innovative work. But nothing gets done. In the few places where there's some success, it's by the forcefulness and energy of a few people."

That all sounds gloomy, but Mr. Diffrient hopes for a happy ending. "I think we're getting into trouble," he said, "but it was trouble after World War II that got the Italians, the Germans and the Japanese moving. In a way, they discovered what design can do almost out of desperation.

"So I think the sooner we get into trouble, the better, because that's what it will take to bring about change."

—Stephen MacDonald

Mr. Wasserman: "Raymond Loewy, Hen Dreyfuss and the other great designers that era were all outside consultants, they all tended to be hired by chief exe tives. They worked day-to-day at the hi est levels of the company, where t could feel its pulse.

"When they turned out to be succes companies started bringing the de function inside, but they made a mist They buried the designers six layers do where they never saw a business plan. T best they could do was throw cosmetics a product as it went out the door. So not surprising that by the '60s many c panies were concluding that their signers must not be very good."

The rapid decentralization of U.S. dustry that took place in the '70s hurt sign further. "A group that may ha inched its way to some status suddenly split into 15 locations," Mr. Wasserm says. "You'd have one or two designe and 200 engineers. It was hopeless to try impart any strategic vision, and back th went to throwing on a little styling."

The approach Mr. Wasserman h helped install at multinational corporatio relies on a small corporate staff to prepa a strategic design plan that parallels t other strategic plans. It includes three-d mensional models of products, along wi marketing materials, ads, instruction ma uals—the whole design mix.

The plan includes illustrations, col chips, finish and all aspects of "human i terface"—keyboards, displays and so o Management can thus view its design e fort concretely, says Mr. Wasserman, an disseminate it to program managers, plan ners, marketers and designers, "so every one understands the philosophy and direc tion of the design effort."

But the plan is only a guideline for th detailed design work. For instance, say Mr. Wasserman, "we might set a principl on a copier that all handles, grasp point and points of entry will be self-evident That means you don't have to look all ove to find out how to open a door to, say change the paper. The models would show one way of doing this, but it wouldn't limi the designers to that solution."

The process can take several years, Mr Wasserman says, and even then, "you don't etch it in concrete. This is a new pro cess, and even though I think the time is ripe for corporations to avail themselves o it, we're all still learning together how to do this."

ISHINGTON POST . FRIDAY, JANUARY 23, 1987 E5

JACK ANDERSON and DALE VAN ATTA

Wash. Post. 1/23/87 E5

Counterfeit Bolts Used in Nuclear Units

Low-grade bolts, counterfeited in Asia and made to look like high-quality industrial fasteners, are flooding the country. Some have turned up in the nuclear industry, but some nuclear power plants fail to make sure their potentially dangerous equipment is held together by bolts of the required strength.

Nuclear Regulatory Commission inspectors have reported quality-control problems with bolts at 11 power plants since 1983. In an emergency, one or two substandard bolts in the wrong place could mean the difference between a shutdown and a meltdown.

A big part of the problem is the widespread use of unmarked or improperly marked steel fasteners, even though the commission's regulations specifically require bolts in sensitive areas to be marked according to industry grading standards. In some cases, the federal inspectors have had to cut chunks out of unmarked bolts to test them chemically and make sure they meet specifications.

As we have reported, counterfeit bolts have been detected at one nuclear power plant and by a Connecticut company that makes valves for the industry. NRC documents reviewed by our associate Stewart Harris give details of the difficulties some nuclear plants have encountered trying to keep track of their essential nuts and bolts. Here's what the NRC's inspectors found and had to correct:

■ At the South Texas plant near Bay City, Tex., unmarked, low-strength bolts intended for electrical raceway supports may have been used in more sensitive equipment. The bolts were distributed throughout the plant in "bulk quantities," according to an NRC report last year. "This condition may have resulted in the indiscriminate use of the unmarked fasteners in other types of equipment installations because the bolting is readily available and presumed to be adequate," the NRC's construction appraisal team reported.

On another visit to the same plant, inspectors noted that low-strength bolts had been substituted for high-strength bolts on mechanical equipment.

■ Quality-control officials at Washington Nuclear Plant No. 2 near Richland, Wash., lost track of the types of nuts installed at various locations. Many were unmarked, but just by looking at them NRC inspectors determined they were not the kind specified, according to a 1983 report. The inspectors also found nuts and bolts of different grades mixed in storage bins instead of being stored separately.

■ Anchor bolts of high and low strength were mixed at the Shearon Harris nuclear plant near Raleigh, N.C. The mix-up caused some equipment to be held in place by low-strength bolts where stronger ones should have been used. In this case, NRC officials decided there was no safety problem, however, and allowed the weaker bolts to stay put.

■ The use of unmarked and incorrect bolts on pumps, motors and other equipment "indicates a generic lack of attention to fastener details" by the Commonwealth Edison Co. and firms supplying equipment for the Byron Station Unit 2 plant near Rockford, Ill., according to a 1985 report. "This matter requires management attention," the NRC inspectors wrote.

As Awareness of Industrial Design Grows, Firms Start to Use It as a Marketing Tool

By Stephen MacDonald
Staff Reporter of The Wall Street Journal

For years industrial designers have struggled with an inferiority complex.

They envy the other design disciplines; architects, interior designers and graphic designers seem much better understood and appreciated by the general public. As for fashion designers, they are among society's most glamorous celebrities.

But who gives a hoot about industrial designers? Who even knows what they do?

That may be changing. Some companies have begun to mention design in advertising and product information. And a few even credit designers by name—a practice that is common in design-conscious Europe. It may be more of a ripple than a groundswell, but public awareness of this branch of design does seem to be growing. For industrial designers any improvement is welcome.

Clunky Name

Not the least of the profession's problems is the curse of a clunky name. It certainly isn't catchy, and it barely hints at what industrial designers actually do.

"Design for industry" sounds like some kind of engineering, or maybe laying out assembly lines. In fact, industrial design is to mass-produced products what architecture is to buildings. From the alarm clock in the morning to the television set at night, nearly everyone lives in a world shaped by industrial design.

The modern office—its desks, chairs, telephones, typewriters, computers, copiers and water coolers—is almost entirely industrially designed. Even major building components are mass-produced these days. An irony not lost on industrial designers is that architects fill buildings with hundreds of products—lighting, plumbing fixtures, even windows and doors—all planned by faceless industrial designers.

No such anonymity plagues their counterparts in Europe; they're cultural heroes. Nearly every product advertisement in Abitare, a Milan magazine of structures, environments and products, mentions the designer, whether it's for a bed, a lamp or a toilet. While American industrial designers may never gain that level of recognition, many profess to see at least some changes in awareness in recent years.

Ten years ago, Larry Bell, an industrial designer now living in Houston, wrote in a trade-magazine article that even his mother didn't understand what he did for a living. He went on to chastise the profession for failing to articulate its function, especially to business. Today Mr. Bell designs for the aerospace industry, where he says industrial design "has a pretty good rep." He adds that among the general population he finds many more people who "will state that they have heard the term, even if they can't always put the correct definition to it."

Similarly, RitaSue Siegel, president of RitaSue Siegel Inc., a search and personnel agency that specializes in design professionals, says she used to get a blank look when she mentioned industrial design outside the office. "Today there's a much greater awareness, although there's always a segment that thinks you're talking about engineering."

> A FEW FIRMS have come to believe customers respect design; the companies mention design, and sometimes even designers, in promotional material.

Business is getting the message, designers say. "Compared with five years ago, we're light years ahead," says Peter W. Bressler, who has his own consultant firm in Philadelphia. "When clients come to us, they already know what we can do for them. We used to have to educate them. Design has acquired a new level of respect."

A few companies have come to believe their customers respect design, too. They mention design, and sometimes even designers, in promotional material.

General Motors Corp.'s Cadillac division, for example, is trumpeting its use of Pininfarina to design its Allante model, currently coming on the market. Pininfarina, based in Turin, Italy, opened a branch in Detroit last year.

And Polaroid Corp. cites Henry Dreyfuss Associates, the big New York consultant office, in material it distributes on the Spectra camera. "We have never hidden the role of the Dreyfuss office in designing our cameras, and it goes back many years," says Samuel Yanes, director of corporate communications. "But with the Spectra we went further and actively promoted it, because we wanted to appeal to a more upscale customer. We felt that customer would respond to the idea that the camera was designed. Not necessarily to the Dreyfuss name, because it doesn't have that strong a public persona, but to design."

Citing Awards

Similarly, a current television ad for the Nissan Motor Corp. in USA compact truck, for instance, mentions that the truck's design won an award from the Industrial Designers Society of America. The IDSA has been giving these awards for years, but nobody ever thought it was worth bragging about in a television commercial. Why now?

According to Norman Mayersohn, a product-information specialist at William Esty Co., Nissan's ad agency, the truck, which was designed by Nissan's own U.S. studio, looks different not only from previous Nissans but from the market-leading Toyota. "It's more sleek and contemporary," he says, "and because of the departure from what the market has come to expect there was some concern about buyer resistance. The commercial is an attempt to overcome that by saying that the appearance makes sense, that it's form-follows-function, that it's a logical design and that it's so good it won a prize."

Designers find these developments encouraging. Mr. Bressler even looks forward to the day when industrial designers have their names on products, like fashion designers do today. "Putting names on clothing was the beginning," he says. "Now Pierre Cardin has started putting his name on products" even though he isn't a product designer. "If he can do it, maybe real industrial designers can do it the same."

Until that happens, Christopher Hacker, vice president for design of Dansk International Design, a Mount Kisco, N.Y., company that has always credited its designers, is pleased that at least a basic level of design awareness has developed.

"I think people finally understand that people design things," he says, "and that they don't just come out."

Forsaking the Black Box: Designers Wrap Products in Visual Metaphors

(WSJ 3/26/87, p 39

By Alex M. Freedman
Staff Reporter of The Wall Street Journal

In product design, less has certainly meant more in recent years. The prevailing standard of minimalism, with its emphasis on black or gray finishes and unadorned boxiness, is evident in everything from typewriters to perfume bottles.

But now a number of heretics are flirting with something called "product semantics"—the idea that consumer goods ought to communicate visually in very explicit ways.

Surfacing in the marketplace are radios, appliances, office equipment and other items designed so that their appearance alone will tell users what they are all about. Indeed, many of the semantic products are intended to be so self-explanatory that users can figure out how to operate them without an instruction manual.

In many cases, these products are also supposed to speak eloquently, through visual metaphors, analogies and even puns, about the quality of the user's experience. For example, Philips Industries N.V., the giant Dutch electronics concern, is about to introduce a hair dryer whose wavy shape evokes the images of both heat and billowing tresses. Italy's Alessi S.p.A. is offering a tea kettle, designed by the architect Michael Graves, with a plastic bird perched on its spout that whistles when the water boils.

'Visual Clues'

"Designers and to some extent companies now have recognized that, as the black box becomes a dominant part of our lives, we need visual clues," explains Michael S. McCoy, co-chairman of the design department at Cranbrook Academy of Art in Bloomfield Hills, Mich., which helped pioneer product semantics. Adds Bill Stumpf, a Minneapolis-based designer, "The idea is to make products more expressive of what they are, even to the point of fantasy."

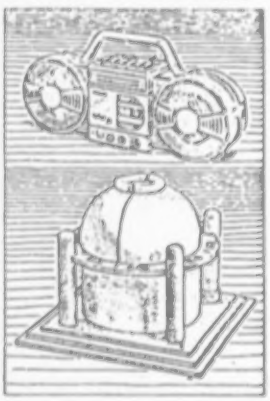
While none of this may sound novel, advocates of product semantics point out that there is a difference of degree. "What's new is that we are looking at the subject in a more systematic fashion," says Reinhart F.H. Butter, a professor of industrial design at Ohio State University and one of the first proponents of the semantics theory. "We want to take all the chance out of it."

Semanticists also stress that the visual metaphors they use have more to do with how the product actually works. In the late 1950s, for example, General Motors Corp.'s Cadillac featured exaggerated tail fins meant to deliver a powerful impression of aerodynamic sleekness. But the fins, advertised as providing "stability at speed," served no real purpose.

The design "didn't enhance the performance of the automobile," says Mr. McCoy. "It just extolled pop-culture values like the romance of space travel in the 50s." By contrast, he adds, the aerodynamic styling of such cars as Ford Motor Co.'s Taurus does improve performance, resulting in a "close linkage" between meaning and function.

This linkage is just as obvious in the Roller Radio, introduced last year by Philips, one of the first companies to embrace the semantic approach. The portable radio's huge circular speakers are meant to convey a sense of sound—lots of it—and also the impression of movement and action. The outsize handle, the company adds, blares "pick me up and carry me."

"So many products are the same today," says Robert Blaich, managing director of industrial design at Philips. "You could take off the labels and you wouldn't know what company made them. We want to use semantics to differentiate our product." The company, which had forecast sales of 70,000 units for 1986, has sold 500,000 so far.



The Roller Radio and the "nuclear power plant" microwave oven

Xerox Corp., too, has been using product semantics increasingly in its design strategy, a move it claims has resulted in less training for users and fewer service calls to remedy simple problems. Recently, the company introduced a line of copiers that call to mind typical office desks, with flat surfaces for paperwork on top and storage space and access doors below.

RichardsonSmith Inc., the Worthington, Ohio, firm that helped Xerox to develop its design strategy, says the tablelike shape is meant to make the copiers seem more accessible. "We had to search for a familiar metaphor that people would feel comfortable with," explains John Reinfrank, RichardsonSmith's senior vice president. "These [copiers] are tabletops just like all the other tabletops in the office."

In another attempt to demystify the workplace, Technology Design in Bellevue, Wash., is developing a computer printer whose shape mimics the undulating movement of paper as it flows out of the machine.

Over the years, concessions to manufacturing efficiency have helped to render products boxier and less descriptive. This is the reason the microwave oven in the kitchen bears a formal resemblance to the computer in the office, argues Cranbrook Academy's Mr. McCoy. "What essentially was a convenience for the producer," he contends, "became the language applied to all products."

In its reaction against such uniformity, product semantics parallels—though at a distance of several years—trends in other disciplines. "Product semantics is like postmodernism (in architecture) in that some of the impulse is boredom with the black and glass," says Ralph Caplan, a New York-based design consultant and critic. "After so many years of clean, stark, unlittered design, product designers, like architects, are saying, 'Why the hell shouldn't there be some fun in it?' "

Of course, finding the form that will carry the right message isn't always easy. Philips, for example, recently developed a microwave oven that could be used on the dining-room table and was intended to remind people of an old-fashioned cooking vessel or a fondue pot. Instead, the oven conjured up visions of a nuclear power plant.

The Wrong Impression

"It just came out that way," concedes Mr. Blaich. "If we had decided to go ahead with it, we obviously would have had to modify it. It would be a sort of antisocial thing to put in the middle of the table."

The marketing staff at Philips also nixed their design chief's idea for a radio shaped like two African tom-toms. Undeterred, Mr. Blaich is trying to come up with an alternative version. "The biggest risk isn't technological, it's psychological," he says. "We're still a very big company with a lot of conservative product managers."

Some designers are equally skeptical about product semantics. Morrison S. Cousins, a partner in New York-based Cousins Design Inc., says that semantics can be a useful tool, and he admits that it can have the positive effect of causing "intellectual thought" among designers about just what constitutes design. But he questions whether it is generally appropriate. "With most products," he says, "there isn't a lot to tell consumers that they don't already know."

Bill Stumpf, the Minneapolis designer, adds that the semanticists' focus on visual imagery and metaphors can even undermine functionality. "My only concern about product semantics is that America can't live on a diet of metaphors," he says. "Design isn't just a visual experience. We've lost track of the fact that things should work better than they do."

PROTECTION OF ORNAMENTAL DESIGNS OF USEFUL ARTICLES— THE LEGISLATIVE OPPORTUNITY

(H.R. 20 97th Congress 1st Session)

By: William T. Fryer, III. Professor

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I. INTRODUCTION

On January 5, 1981, Congressman Railsback introduced H.R. 20, entitled a bill to amend the copyright law. Title 17 of the United States Code, to provide for protection of ornamental designs of useful articles (hereinafter referred to as H.R. 20, with all section references to that bill unless otherwise indicated).[1] It is the offspring of an old family of legislative attempts to create a new form of protection for ornamental designs of useful articles.[2]

A complete review of H.R. 20 requires a historical and section-by-section analysis to answer a number of important questions. For example, what is a useful article? What design features can be protected and for how long? What happens to the protection that may be available under patent, copyright or trademark law? Is the protection under H.R. 20 similar to present forms of intellectual property protection? Why has this family of bills been unsuccessful in receiving congressional approval? What changes have been made from earlier versions of the bill? What is the political, business, and legal climate now for passage of this bill?

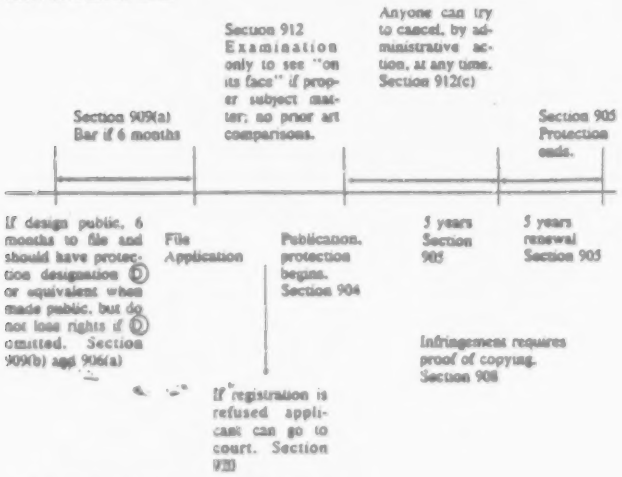
This paper will address these questions and others to bring out the important features of H.R. 20. It is another purpose of this paper to lay the ground work for a detailed analysis of the interfaces between H.R. 20 protection and existing forms of intellectual property, a subject to be covered in the papers that follow. After integrating the substance of H.R. 20 and the existing intellectual property law affecting useful articles, it should be easier to resolve the ultimate question of whether a new form of protection, like the one created by H.R. 20, is worthwhile.

II. OVERVIEW OF H.R. 20 PROTECTION AND PROCEDURE

A. Diagramatic View

The firm belief that a picture is worth a thousand words dictates that the initial explanation of protection under H.R. 20 will come from a careful review of Figure 1 below.

FIGURE 1—THE PROCESS FOR OBTAINING USEFUL ARTICLE DESIGN PROTECTION UNDER H. R. 20


Section 912 Examination only to see "on its face" if proper subject matter; no prior art comparisons.
Anyone can try to cancel, by administrative action, at any time. Section 912(c)
Section 909(a) Bar if 6 months
Section 905 Protection ends.
If design public, 6 months to file and should have protection designation © or equivalent when made public, but do not lose rights if © omitted. Section 909(b) and 906(a)
File Application
Publication, protection begins. Section 904
5 years Section 905
5 years renewal Section 905
Infringement requires proof of copying. Section 906
If registration is refused applicant can go to court. Section 920

B. Criteria for Protection under H.R. 20.

Must be original—Sections 901(b)(4) and 902(a)
and Ornamental—Section 901(b)(3)
and On a useful article—Section 901(b)(1)
and Not a staple or common design—Section 902
and Not insignificant detail over staple or common design—Section 902
and Not dictated solely by utilitarian features—Section 902
OR Original, ornamental, and on a useful article, that is similar to a staple or common design or a design solely dictated by utilitarian function of a useful article, if the design is a *substantial revision* of the similar design—Section 903.

C. Comparison with Other Forms of Intellectual Property.

Copyright—coexists with the copyright term reduced to the same as H.R. 20 protection for useful article design features.

Design patent protection—H.R. 20 protection cannot exist at the same time.
Trademark protection—H.R. 20 protection can coexist without restrictions on either form.
Other unfair competition protection—same as for trademark law.
Subject matter coverage for H.R. 20 is generally greater than for at least some of the other forms, due to the protection under H.R. 20 of design features related to the functional aspects of the product and not solely dictated thereby.

III. SUBJECT MATTER PROTECTED BY H.R. 20.

A. What is a Useful Article?

H.R. 20 provides protection only for designs on useful articles. It defines a useful article in Section 901(b)(1) as one that in normal use has an intrinsic utilitarian function. Examples of this type of article abound, such as tables, chairs, lamps, and flashlight-tweezer combinations. It excludes protection for articles that merely portray the appearance of an article,[3] like a painting or photograph, and excludes articles that convey information, like a newspaper or an advertising sign.[4] The fact that an article can be combined with another useful article makes the first-mentioned article a useful article because of its association with a useful article.[5]

Without more limitation, the subject matter scope of H.R. 20 would be very broad. As expected, there are further limitations that exclude significant groups of articles from protection, as discussed below.

B. Ornamental and Original Requirements.

Even if there is a useful article design it is not protected by H.R. 20 unless the design creates an ornamental appearance.[6] The ornamental feature must make the article attractive or distinctive in appearance. It can be two-dimensional, a flat surface feature, or three-dimensional, or an appearance created by shape and surface features.[7] This requirement clearly removes from H.R. 20 protection any useful article design where the design is not seen by the public. In this respect, the term ornamental takes on essentially the same meaning as it does under design patent law.[8]

A further basic requirement for protection of a useful article design is found in Section 902(a), requiring that the author must have originated the work, not copied it from someone else. This requirement is essentially the same as the originality required for each copyrighted work.[9] If the designer copies an earlier design created by another person and there is no appearance difference, there can be no protection under H.R. 20. It is not an original, useful article design.[10]

C. Uncommon Design and Uncommon Variation Requirements.

The drafters of H.R. 20 may not have wanted "novelty" or "unobviousness" labels associated with some of its requirements, for fear that undesirable emotion or influence might come from use of terms found in the patent law.[11] It is a fact, however, that to the list of requirements already mentioned, the useful article, ornamental appearance, and originality must be added a requirement found in Section 902(b) similar to, but not the same as, "novelty" and a requirement in Section 902(c) that is similar to but not exactly the same as "unobviousness". The useful article design will not be protected if it is a staple, or commonplaced feature.[12] Examples of what is commonplace are given in H.R. 20, and they are a standard geometric figure, familiar symbol, emblem, or motif.[13] An even broader category is stated, embracing all specific items just mentioned to exclude protection for any shape, pattern or configuration which has become common, prevalent, or ordinary.[14] All these excluded designs appear to fall in the same general group, representing designs in common use and reflecting a decision not to allow design features in general use to be the subject of exclusive rights. As this broad exclusion group is nothing less than a limited form of novelty requirement, each useful article design must be examined to see if its ornamental appearance is a commonplace feature. If it is such a feature, no protection will be available under H.R. 20.

A further requirement, even if the ornamental feature is not the same as a commonplace feature, is found in Section 902(c), requiring that the ornamental feature must be significantly different from the prior commonplace designs, i.e., not just an insignificant difference. This comparison of prior features must be based on a subjective opinion on how different the feature is and whether the difference creates a distinct appearance.

Even if the appearance difference mentioned is significant, Section 902(c) requires that the design difference must not be a variance on a commonplace feature that is generally found in the trade. This further requirement adds to the exclusion requirement a broader range of design feature combinations. This exclusion lists under Section 902(c) for insignificant or common variations

appears to be narrower than under the design patent obviousness test requirement of Section 103. One could label this requirement a miniature version of the patent Section 103 obviousness standard, with all the attendant questions, like what skill of the art standard should be used.

The uncommon design and uncommon variation standards should not be hard to apply. The first step is to see if the design has been used by others before. If there has been such use, the design is not novel, but its use may have been so infrequent as not to reach the commonplace level that prohibits protection under H.R. 20. The second step, if the first step is successfully passed, is to see if the difference from the prior commonplace design is either not significant from an appearance point-of-view or is a well established variation that is commonly used for this type of product. All the evidence needed to prove these points will come from persons familiar with the product market and samples of product designs showing whether this design is commonplace or is only distinguished by design features commonly used on this type of product.

D. Design Features Related to Product Functions—Limitation on Protection.

The intellectual property law is full of vague statements about the effect of a design being dictated by function.[15] Every product performs a function and some of the appearance features are inseparably combined with these functional aspects. Some design features, like an emblem, can be separated completely visually, from a functional aspect of a product. A very important part of product design is to make the useful, functional features attractive. The hard policy question to resolve is what design features of the functionally related type should be excluded from intellectual property protection.

Under H.R. 20, a major step forward has been taken to offer protection for some function related useful article designs. In fact, this part of H.R. 20 may be one of the most significant differences from other forms of intellectual property protection. It is hard to analyze realistically whether function or appearance determine a particular design. There is always the argument that the new design works a little better in some respects. The tension is taken out of this analysis, somewhat, by Section 903, discussed next.

E. Salvation through Revisions, Adaptations, and Rearrangements.

The tension created by uncertainty in knowing what design subject matter can be protected is seemingly lessened by Section 903. This Section specifically identifies some subject matter that may have been previously excluded from coverage by too broad an interpretation of Section 902, i.e., where a similar design has been used and the difference is considered insignificant, or includes only a variation that is common with such products, or is a design dictated solely by utilitarian function.

The test for salvation from exclusion is whether the design is a substantial revision, adaptation, or rearrangement.[16] At the same time, Section 903 makes it clear that only the change, the revised part of the design is protected, and no rights are obtained for subject matter excluded under Section 902. The interaction between Sections 902 and 903 appears to make it clear that there can be protectable rights in designs that have some similar features with a common design, if there is a substantial revision of that common design to create a distinct appearance. On the other hand, minor variations or mere combinations of existing design features will not be protected.[17] The comparison test for commonplaceness or a common variation exclude protection for designs that are generally needed for competitive activity.

The substantial revision test of Section 903 applies also to the excluded design related to a functional part of a product.[18] The design dictated solely by a functional feature is never protected, but if a design is a substantial revision of a functionally dictated product design, that appearance can be protected. In other words, more than one design can be used for that utilitarian product and each product can still perform the same utilitarian function. Consequently, the substantially revised design is not solely dictated by the product utilitarian function. The substantial revision test in effect separates out designs that result from mechanical features required for operation of a product, equivalent to subject matter normally protected by a utility patent,[19] and leaves these mechanical design features excluded from protection. While all products of a given type must have these mechanical features to function, no design protection will be allowed that controls their use. If a designer is able to retain the mechanical function and create a substantially different appearance, this design will be protected under H.R. 20. The protected design for the mechanical product does not prevent competition, as other products performing the same function can be sold, using the basic product design solely dictated by the functional features.

This evolution from the unprotectable product design features to the added protectable design features, leaves room for design creativity without burdening competition in the basic product. It seems to be a workable approach, especially

when all indications are that the terms "substantial revision" will be interpreted narrowly, to resolve doubts on whether design protection will control the use of essential functional features against awarding protection. This approach is in keeping with the proper balance that should be given between the public policy for competition and the policy to create the incentive for new product designs.

F. Clothing Designs—Exclusion Dictated by Legislative History.

There is a very specific exclusion in Section 902(e) for clothing designs. This fact may come as a surprise, since one would think that dress designers would be at the forefront of pushing for protection. These designers did push for protection in earlier versions of H.R. 20, but the political climate in 1975 and now, mainly due to the garment industries concern over their market for style copies, leaves this exclusion a necessary compromise.[20]

There is the question that goes to the heart of the matter whether there is a need for protection in the clothing industry. The style setting function of the top lines seems an established relation on which the top and cheaper quality clothes depend. If there was design protection, no one knows if the designers would retain the dependency relation through not seeking protection or licensing. It may be a unique situation where no form of protection is needed by the industry, because the bulk of the clothing industry relies on seasonable design changes and the style setting function of the top brands.

The problem with excluding clothing from protection under H.R. 20 is that importers are aided as well as the U.S. garment manufacturers. If U.S. business is concerned over control of import, the best way to control copying seems to be to give U.S. business the choice of protection, by including the opportunity in H.R. 20. The garment industries interest may have changed with increased foreign competition. It should also be considered whether other countries provide such design protection, restricting importation of U.S. clothing copying designs originating in the foreign country. If there is effective use of such protection in a foreign country, U.S. business may want a bargaining position by adding clothing protection to H.R. 20, whereby cross-licensing arrangements can be used to open up the foreign market.

G. Protection of Typefaces.

A significant part of the 1975 hearing on one earlier version of H.R. 20 was taken up with the desire to obtain protection for typefaces.[21] The typeface is a set of artistically drawn letters, numbers, and symbols that visually create a pleasing appearance together. There are many designs for typefaces.[22] The Copyright Office express the view that these typeface designs were protectable under the proposed version of H.R. 20.[23] In all significant respects relating to subject matter protection of typeface, H.R. 20 is the same as the bill debated in 1975. A concern was expressed that the linotype machine manufacturers would dominate the printed world by protecting a typeface design, or at least they would impede the flow of knowledge by requiring publishers to use unprotected typeface. There was no proposal or solution presented on how to settle this dispute, except the casual mention of some form of compulsory license for typeface protection.[24]

Since that time, the Copyright Office has denied copyright registration to typefaces[25] and no new proposal is embodied in H.R. 20 to solve the dispute. As there was considerable public concern over this issue, one solution would be to add an exclusion for typeface designs to Section 902 of H.R. 20 and wait for the completion of the technological change that is even now making the printing industry capable of instantly varying character design through digital computer control, so that everyone would have a wide choice of typeface. At that time, the argument that protection of typeface design would control the flow of printed material would substantially disappear.

Another alternative would be to hold a hearing specifically on typeface protection under H.R. 20, to find out where the balance should be drawn under present technology and the public concern. This hearing could be held promptly and appropriate action taken based on its results. In the interest of not delaying the protection needed now for many product designs from H.R. 20, it may be the wisest decision to insert the exclusion provision and move the bill to final congressional action unless the hearings on typeface protection can be held promptly.

IV. INFRINGEMENT UNDER H.R. 20.

A. General Provisions.

The basic requirement to infringe a design protected under H.R. 20 is copying, as provided in Section 908(d). In this respect, the copyright law[26] and H.R. 20 are essentially the same. A broad range of rights are given the design registration owner under Section 908(a)(1).

B. Infringement by Seller, Distributor, or Manufacturer.

The history of H.R. 20 showed a singular concern over innocent infringement by sellers, distributors, and manufacturers.[27] The scenario most often raised was that a small retailer receives a notice of infringement and being unfamiliar with the design law may be forced to destroy all its inventory because of the alleged infringement, and generally it may be harassed in other ways. H.R. 20 specifically addresses this situation and attempts to give the innocent seller, distributor, and manufacturer a fair break. The solution under Section 908(a)(3) is to only require a seller or distributor who did not make or import the goods to reveal the source of the alleged infringing goods, even if the alleged infringing goods are reordered.[28] A seller or distributor who makes the goods or who imports them is not given this escape.[29] The seller-maker or importer, however, is immune from infringement if it does not know a protected design is being copied.[30] As soon as notice is received that the design is protected, the importer or maker becomes an infringer.[31] The innocent person who sells or distributes a product with a component part that has a protected design under H.R. 20 is free to continue business as usual if the source of infringing goods is revealed.[32] In the same way, an innocent infringer who makes an infringing product for another, or possesses an infringing product, will be free to continue selling and/or making the product if the source of the product or the designation of the manufactured product, as appropriate, is revealed.[33]

C. Infringement by Illustration or Picture.

Another exclusion from infringement is found in Section 908(d) for the person who takes a picture or makes a sketch of a protected design. This exclusion avoids infringement by newspapers and magazines, for example. There is a warning in this approach to some who would manufacture a product design from a picture, innocently assuming that there is no protection, since the picture is freely circulated. This picture copier-manufacturer would be an innocent infringer until an infringement notice is received, as provided in Section 908(b).

D. Have the Sellers, Distributors, and Manufacturers Legitimate Concerns Been Met?

The overall impact of Section 908 in most situations is to free from infringement all but the product manufacturer who has been notified of the protected design infringement. It is hard to imagine a more fairminded approach. The target of H.R. 20 is the manufacturer who knows there is infringement and has initiated this infringement. The infringement and validity dispute is litigated at one time where the greatest economic interest exists and probably a higher degree of sophistication in appreciating the line between infringing and non-infringing copying. This narrow focus, while protecting the legitimate interest of a protected design owner, appears to answer the earlier concerns from the market place.

V. ADMINISTRATIVE MATTERS.

A. General.

The normal administrative details are included in H.R. 20 for this kind of government function, very similar to the administration of the patent and copyright laws. These administrative details can be appreciated easily from an inspection of Figure 1 in Topic II above, and will not be repeated here. They appear effective and where there is an unanswered procedural problem the administrator has authority to exercise rule making power.[34]

B. A Novel Approach to Ownership Determination.

The authorship confusion that occurs without fault in many situations due to the large number of people working on a project has been resolved effectively in H.R. 20. Section 909(g) allows an employer to use its name in the application for registration where there is uncertainty over which employee(s) authored a design. Normally the author must be identified by name and sign the application. This change reflects a progressive approach to resolving the frequently unresolvable problem of authorship determination.

There is one clear concern with H.R. 20 that many who practice patent law will recognize immediately. There is no provision for a complete, new authorship designation on a registration. The D.C. Circuit Court of Appeals has held that under existing patent practice an application naming a sole inventor can be amended, where no fraud is involved, and a new inventor name.[35] Section 909(g) specifically prevents that practice. A more progressive approach, following the recent change in patent law, is strongly urged to remove an unfair burden on an applicant at the time of filing.

C. What Organization Will Administer the Law?

An unresolved aspect is what executive or congressional organization will administrate H.R. 20. The Copyright Office started out in a non-committal mode, leaving it up to Congress and willing to take it on if asked.[36] The Patent and Trademark Office wanted to administrate H.R. 20 and said so.[37] Later testimony reflected the Copyright Office's desire to take responsibility, arguing the process is more similar to copyright procedures.[38] This minor dispute has not dissipated the cooperative effort of these departments, and each organization has continually and generally supported the enactment of useful article design protection, with some proposals along the way for amendment.[39] It is interesting to note that two branches of government are involved, since the Copyright Office is under the Library of Congress, a congressional organization, and the Patent and Trademark Office is part of the Department of Commerce in the executive branch. One would not be surprised that Congress would favor its own organization. The Copyright Office choice would not be a bad one, since it has been very effective in adapting to the 1976 Copyright Act and generally has a very good public image. As H.R. 20 stands now, it is the discretion of the president to select the administering organization. Since the president controls only the executive branch, the Patent and Trademark Office probably has the job unless Congres changes the designation.

D. Protection Starts on Registration.

H.R. 20 incorporates a significant change from the design bill considered in 1975. Under the earlier version, protection started at the time of publication, as with a copyright. The Patent and Trademark Office urged that the publication not be required for protection, to prevent loss of possible foreign rights in countries where publication creates an absolute bar to protection.[40] There seemed to be no general opposition at the 1975 hearings to this change, even though its forced a race to file, to preserve some foreign rights. H.R. 20 initiates protection upon registration, as shown in Figure 1 under Topic II.A. above..

The relative increase in pressure and expense on applicants by this change is not as much as one might expect, since most businesses will want to fill before making a decision public to protect some foreign rights. In addition, the six month statutory bar after making a decision public requires a business to coordinate its design promotion and filing procedures anyway to prevent loss of design rights.

VI. JUDICIAL PROCESS AND REMEDIES.

A. Combined Registration and Infringement Determination.

The judicial process is expedited somewhat under H.R. 20 in the case where a registration has been denied and an infringement registration exists. The applicant would like to expedite the infringement suit, but the process would require two court actions, one to determine registerability and the other infringement. Under Sections 922 and 923, a court can review the registration issue and if registration is authorized, the court can decide the infringement issue. This combined proceeding appears to have a decided advantage for efficient judicial administration and to aid the parties in resolving the conflict quicker than experienced in similar design patent situations where separate court actions are required.

B. Penalty for Fraudulent Misrepresentation.

There is always the possible abuse of a registration system, to harass a competitor with suits on registrations obtained by fraud. The possible effect on an attorney who knowingly participates in such misconduct is a deterrent to this abuse. H.R. 20 does not add much else to discourage such misconduct by business. A maximum penalty of $1,000 is all that is provided.[41] It would seem that a greater penalty amount would be a better deterrent.

C. Limitations on Damage Recovery.

Expected remedies of injunction and damages are available for design infringement in Sections 921 and 922, respectively. A limitation on the increase in damages is provided in Section 922. The court determines the actual damages caused by the infringement based on reasonable value and an additional amount of damages can be included, subject to the court's discretion up to $5,000 or higher if the one dollar minimum per infringing copy when totalled exceeds the $5,000 limit. This provision does set a limit in situations where damages are hard to prove. The other restriction on damages is the statute of limitations of three years from the date of the complaint.[42] This time period when compared with the patent statute of limitations of six years,[43] reflects the faster pace of the market for designs and the desire not to encourage delay in litigation.

VII. RELATION TO OTHER FORMS OF INTELLECTUAL PROPERTY.

A. General.

An effort should be made to set the stage for comparing H.R. 20 protection and other forms of intellectual property rights. Papers that follow this paper will give a detailed analysis of the design patent, copyright, and trademark law for useful article design protection.

B. Utility Patent.

H.R. 20 states in Section 928(a) that there shall be no effect from its provisions on protection provided under the utility patent laws. There is, however, an indirect relation between H.R. 20 and utility patents. Under Section 902(d), if a utility patent exists, the patent should be reviewed to determine what the function is of each part of the patented product. As mentioned in Topic III.D. above, the design protected under H.R. 20 cannot include features dictated solely by the product function. This exclusion would include the appearance created by a patented feature, as defined by the patent claims, unless embodiments of the patented device can be made that create other design appearances that function equally as well.

C. Design Patent.

H.R. 20 provides in Section 928(b) that when protection has been obtained under its provisions and then a design patent is obtained, protection under H.R. 20 terminates. This restriction would appear to eliminate any protection under H.R. 20 if a design patent exists before an attempt to seek H.R. 20 protection.

D. Copyright.

There is a significant relationship between protection under H.R. 20 and the copyright law. In general, Section 927(b) allows copyrighted subject matter to be incorporated in a design protected under H.R. 20, if the copyright is owned by the design applicant, or licensed authority is given for the use in the design. The effect is to tie the copyright protection for use in a useful article to the same period of the H.R. 20 protected design, a much shorter time period. Protection for all other applications of the copyrighted design features continue thereafter for the term of the copyright protection. Except for the above interface, the copyright law is independent of H.R. 20.[44]

E. Trademark and Other Unfair Competition Law.

There is a confusing statement in Section 929 of H.R. 20 regarding its effect on common law rights. The intent of this provision seems to be that there is no interference between trademark law and other unfair competition and H.R. 20 protection. The statement to this effect is limited to designs that have been registered under H.R. 20. The obvious solution is to add a clarifying amendment that indicates the non-interference applies to all designs, whether registered or not registered under H.R. 20.

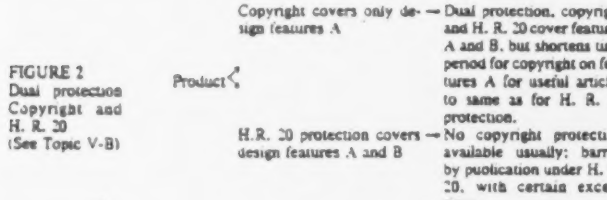

Product
Copyright covers only design features A
Dual protection, copyright and H. R. 20 cover features A and B, but shortens time period for copyright on features A for useful articles to same as for H. R. 20 protection.
H.R. 20 protection covers design features A and B
No copyright protection available usually; barred by publication under H. R. 20, with certain exceptions.

FIGURE 2
Dual protection Copyright and H. R. 20
(See Topic V-B)

FIGURE 3
Dual design patent and H. R. 20 protection
(see Topic V-C)

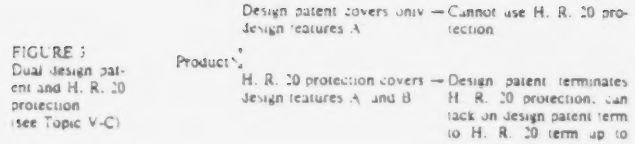

Product
Design patent covers only design features A
Cannot use H. R. 20 protection
H. R. 20 protection covers design features A and B
Design patent terminates H. R. 20 protection, can tack on design patent term to H. R. 20 term up to issuance of patent, but statutory bar provision reduces benefits.

FIGURE 4
Dual trademark and H. R. 20 protection
(See Topic V-D)

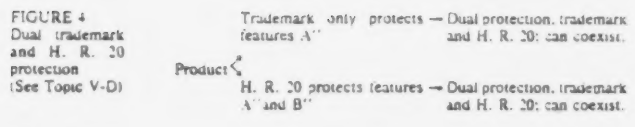
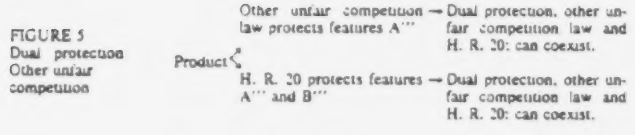

Product
Trademark only protects features A''
Dual protection, trademark and H. R. 20; can coexist.
H. R. 20 protects features A'' and B''
Dual protection, trademark and H. R. 20; can coexist.

FIGURE 5
Dual protection
Other unfair competition


Product
Other unfair competition law protects features A'''
Dual protection, other unfair competition law and H. R. 20; can coexist.
H. R. 20 protects features A''' and B'''
Dual protection, other unfair competition law and H. R. 20; can coexist.

VIII. COMBINATION OF INTELLECTUAL PROPERTY PROTECTION FOR USEFUL ARTICLE DESIGNS.

A. General.

The topic of how does H.R. 20 protection compare with the scope of subject matter protection for a useful article design under design patent, copyright, trademark, and other unfair competition laws is one of the most challenging intellectual exercises one can undertake. It requires the reader to examine the general picture outline in this topic, and to review the following papers that clarify the scope of subject matter protection for a useful article design under each of the other relevant intellectual property forms. After reviewing the other papers, the reader should come back to this topic and consider in more detail the situation diagram shown in Figures 2 through 5, found at the beginning of this topic. These figures help to show when H.R. 20 design protection can be combined simultaneously or in sequence with another form of intellectual property protection. Of course, the combination can be increased by looking at three or even all of them at a given situation, but the results of these complex analyses should be apparent from the simpler situations represented in Figures 2 through 5.

It was the failure to be able to explain to Congress in relatively simple terms, the relationship of the existing forms of intellectual property law to H.R. 20 type protection that contributed significantly to the very slow exceptance of this additional form of protection.[45] Quite frankly, it is a potentially confusing topic, even for the practitioner. It is goal of the following analysis to combine with the background from the attached papers to present a simplified picture of how H.R. 20 on subject matter protection would interact with existing intellectual property law.

B. Copyrights and H.R. 20 Protection on the Same Article.

The diagram of Figure 2 compares H.R. 20 protection and protection under the copyright law. The first point to note is that either copyright or H.R. 20 protection is available for the design of a useful article. The question is whether these laws protect the same scope of subject matter. The answer clearly depends on the nature of the design and whether it includes subject matter not protectable under the copyright law. The premise here is that H.R. 20 offers protection for design features that are not protected by copyrights. The design features represented in Figure 2 as group B may be a design that is part of a functional product feature. If there is no protection for the B group features under copyright law, then H.R. 20 protection is clearly broader in scope of subject matter protected. This greater protection under H.R. 20 is due to the expansive effect of Section 903, permitting protection of substantial revisions of an earlier design solely dictated by product function, as discussed in Topic III.D. above. The paper on copyright law should help clarify the scope of copyright subject matter protection.[46]

The other key question about copyright and H.R. 20 protection is whether they can occur together for the same product design. The answer shown by Figure 2 is yes, with a reduced term for the copyright equal to H.R. 20, a ten year maximum. If the H.R. 20 protection is obtained first, there cannot be copyright protection, by operation of the copyright law, since there has been a publication without the required statutory notice,[47] except in situations where failure to add the notice of copyright can be overcome.[48] Of course, the publication of the H.R. 20 registration may include the copyright notice, but that arrangement has not been specifically provided for in the bill. The result generally speaking is that unless the copyright is obtained first, there cannot be dual protection and only H.R. 20 protection will be available. Even if dual protection is obtained by adding copyright protection, the net effect is to have greater subject matter protection than with the H.R. 20 protection alone and the same protected period. Consequently, there seems to be no significant benefit to dual copyright-H.R. 20 protection, except for the benefit received through the copyright law which gives instant protection at the time the copyright notice is applied until the H.R. 20 design protection registration is obtained.

The main advantage of H.R. 20 is the opportunity for protecting a design feature that cannot be protected by copyright law. This result will seem to be what the drafters of H.R. 20 wanted, to provide a better choice of protection for a useful product design, where a significant part of the design features are in Group B of Figures 2, outside the protection of the copyright law. In other situations there may only be features within Group A of Figure 2 that are protected by copyright law and will have a longer protection term if H.R. 20 protection is not obtained. It is apparent that a careful analysis of the type of design features involved in a product must be made to determine whether copyright of H.R. 20 protection, or both, is most desirable.

The conclusion is apparent that H.R. 20 does add useful protection not found in the copyright law. At the same time, it enforces a shorter term of protection for all copyright and H.R. 20 protected features embodied in the useful article design. In the end, the public gains quicker, free access to design features than would be the case under copyright law alone. The public gives up free access to design features not protected previously under copyright law, but the term of protection is relatively short and the public retains the right to use the product's design features that are solely dictated by product function.

C. Design Patent and H.R. 20 Protection on the Same Article.

The relationship of H.R. 20 to design patent law is much simpler in some respects than with copyright law and is illustrated in Figure 3. There can be no H.R. 20 protection if there is a design patent.[49] The subject matter for H.R. 20 protection may include features not protected by the design patent, a question more fully addressed in the following paper on design patent law. Figure 3 identifies these design features that are only protected by H.R. 20 as within Group B'. Whether the features in Group B' are the same as in Group B of Figure 2 is not crucial to an analysis of H.R. 20 protection. It is an interesting question. The answer may be that B' and B group features are very similar if not the same as design patent law and copyright law each exclude protection based on the presence of function-related features. H.R. 20 serves an important role again, providing protection not available under design patent law.

The other situation illustrated by Figure 3 is where both H.R. 20 and design patent protection are obtained for the same useful article. Design patent protection occurs only when the patent issues. Once design patent protection is obtained, there can be no H.R. 20 protection. If the design patent protection is obtained after H.R. 20 protection starts, H.R. 20 protection must terminate. The design patent protection can continue for the full 14 year term.

There is the opportunity to extend protection originally obtained under H.R. 20, since the design patent protection can be tacked on to the H.R. 20 term used before the design patent protection starts, when the patent issues. As a practical matter, the likely extension time would be relatively short, equal to the time to obtain a design patent plus six months maximum. The design patent application must be filed promptly, because there is a six month statutory bar to file a design patent application[50] and the H.R. 20 registration application clearly starts the bar period, unless an earlier public display has started the bar period running already. The choice between H.R. 20 protection, if initiated first, and a design patent does give a design owner a chance to receive immediate protection under H.R. 20 while the design owner finds out if the design meets the tougher obviousness standard of the patent law.[51] H.R. 20, in effect, acts as a safety net, giving the design owner at least some protection if the design patent sought is not obtained.

The relation between design patent and H.R. 20 protection is beneficial to the design owner and does not unduly extend protection for the design. A practitioner would do well to consider registering under H.R. 20 to fill in the gap of needed protection while the design patent application is being processed.

While the design subject matter protected may be less under a design patent and

the standards are higher, there clearly are advantages to having design patent protection for some designs. There are other problems with design patent protection, such as what standard is used to determine obviousness. All these concerns will be addressed in the paper that follows on design patent protection of useful article designs.

D. Trademark and H.R. 20 Protection on the Same Article.

The situation concerning the trademark law relation to H.R. 20 protection is even simpler than for either one of the previously mentioned forms of intellectual property. As illustrated by Figure 4, there is both trademark and H.R. 20 protection for certain design features, represented by the features of Group A".[32] The criteria for selecting what is a trademark will exclude certain design features identified as in Group B", from being capable of functioning as a trademark and thereby protected under the trademark law. The design features identified as Group A" in Figure 4 will also be protected under H.R. 20, along with some of the design features represented by Group B" that could not be protected by a trademark. A detailed comparison of the B, B', and B" groups of excluded features needs more attention that can be given in this paper. In general, the same common denominator exists as found in copyright and design patent law, that the features not protectable under trademark law are related to the functional features of the product.

Trademark and H.R. 20 protection can coexist. The advantage of H.R. 20 protection, as in the comparison of other forms, is the broader scope of protected design features. The paper on trademark and unfair competition law that follows will explain in detail the scope of protection and other aspects of trademark law relevant to useful article design protection.

E. Other Unfair Competition Law and H.R. 20 Protection on the Same Articles.

The situation concerning H.R. 20 protection and other unfair competition law, illustrated in Figure 5, is very similar to the trademark law picture. The two forms of protection can coexist.[33] They do not effect each other. There are design features that may not be protectable under the unfair competition law. The design features that may be protected by the unfair competition law are labeled A''' and the design features protected by H.R. 20 are A''' and B'''. The value of the H.R. 20 protection is clearly demonstrated. Again, the B''' design features are part of the group that cannot be protected by the unfair competition law for several reasons, including the fact that some design features are related by the functional parts of the product, even if not solely dictated thereby.

The paper that follows on trademark and other unfair competition law explores in greater detail the scope of the other unfair competition law protection and related aspects to the protection of useful articles designs.

XI. CONCLUSION.

At this point the significant features of H.R. 20 should be clearly in view. The overall comparison of the most significant aspects of H.R. 20 protection and other forms of intellectual property has been completed. The conclusion must be that H.R. 20 provides a unique form of protection that is not found in other intellectual property forms, and there is some overlap, where dual protection can be obtained. Each instance of overlap the H.R. 20 protection does not extend the protection period, except for the limited, possible extension when H.R. 20 protection is followed by a design patent.

The broader scope of subject matter protection appears to be the most significant advantage for H.R 20 protection. As illustrated by Figures 2 through 5 under Topic VIII, certain design features related to functional aspects of a product cannot be protected except under H.R. 20. Also, H.R. 20 may offer an effective, cheaper, substitute for design patent protection. It remains to be seen if these differences are important enough in the market place to warrant the addition of H.R. 20 to the intellectual property resources available to business. While a few minor changes may be needed in H.R. 20 to ready it for passage, it is technically sound and properly focused to accomplish the intended goal of greater design protection for useful products.

You are encouraged to review the following papers for an in depth analysis of copyright, design patent, trademark, and other unfair competition law related to useful article design protection.

FOOTNOTES

1. *See* Appendix for text of H.R. 20.
2. A comprehensive review of the legislative history for the H.R. 20 family is found in Note, *Statutory Design-Rights: Solution to the Unfair Competition of Piracy*, 34 G.W. L. Rev. 110 (1965). The period up to 1975 is described by Professor Latman in his testimony during the 1975 hearings. Hearing before Subcommittee on Courts, Civil Liberties . . . of the Judiciary, House of Representatives on H.R. 2223, Copyright Law

Revision (1976), 991–1007, with a summary of legislation at 1007. this publication will be cited hereinafter as Hearings 1975. There has been no significant legislative activity since 1976 when Title II of the Copyright Bill containing the useful article design protection provisions corresponding to H.R. 20 generally was removed just before passage of the 1976 Copyright Act. H.R. 20 contains most of the same provisions as Title II and the differences do not significantly change the substantive or administrative features with the exception of the protection period starting on registration and not when the design is made public as discussed in Topic V D. of this paper. The American Bar Association—Patent, Trademark, and Copyright Section in 1961 and 1974 endorsed the establishment of a separate form of protection for ornamental designs. Summary of Section Proceedings for 1961 Annual Meeting, 448 and 1969 Meeting at 69.

3. H.R. 20 Section 901(b) (1).
4. *Id.*
5. *Id.*
6. Section 901(b)(3).
7. Section 901(b)(2).
8. 35 U.S.C.A. § 171 (1981).
9. 17 U.S.C.A. § 102(a) (1981).
10. In an infringement action, a party alleging rights under H.R. 20 has the burden of proving originality, when the alleged infringer introduces evidence showing of prior identical or similar design. Section 908(e).
11. The novelty requirement for patents is found in 35 U.S.C.A. § 102 (1981) and the obviousness standard is found in 35 U.S.C.A. § 103 (1981). It would be a useful analysis, beyond the scope of this paper, to compare the § 902(b) and (c) tests with the copyright law standards that may have similar effect.
12. Section 902(b).
13. *Id.*
14. *Id.*
15. The definition of pictorial, graphic, and sculptural works subject to copyright protection excludes the mechanical or utilitarian aspects. 17 U.S.C.A. § 101 (1981); *see* Nimmer on Copyright, § 2.18, re works of utility: limitations on copyright ability by reason of utilitarian function, and Note, *Copyright Law—Copyright Protection for Industrial Designs under the 1976 Copyright Act*, 25 Wayne L. Rev. 923 (1979). For design patents relation to mechanical construction and function, see Deller's Walker on Patents, § 170 (1982). For trademark law relation to product function, see McCarthy, Trademark and Unfair Competition, §§ 7.26, 7.28, and 8.6, and Darby Drug v. Ives, U.S.S.C., 50 Law Week 4592 (1982). Unfair competition law relation to functional features is discussed in Note, *Unfair Competition and the Doctrine of Functionality*, 64 Col. L. Rev. 544 (1964), and Note, *The Problem of Functional Features: Trade Dress Infringement under 43(a) of the Lanham Act*, 82 Col. L. Rev. 77 (1982).
16. Section 903.
17. The intention not to protect design features excluded under Section 902 is re-emphasized in the infringement provision, Section 908(d), last sentence.
18. Section 902(d).
19. 35 U.S.C.A. §§ 1-154 and 181-376 (1981).
20. A full discussion of the issues and political manuevering concerning protection of dress designs is found in the Note, *Statutory Design—Rights: Solution to the Unfair Competition of Piracy*, 34 G.W. L. Rev. 110 (1965), beginning at 118. See particular footnotes 75-80 concerning the role of the National Retail Merchants Association. The basic garment industry concern was to be free to copy the style setting designs, an integral part of the industry plan to keep shifting designs yearly and to offer a full range of clothing qualities and prices. The case for not protecting clothing designs was presented in the Note, *Protection for the Artistic Aspects of Articles of Utility*, 72 Harv. L. Rev. 1520 (1959), beginning at 1532. Political pressure was so great that the exclusion was adopted and there was no serious challenge to this exclusion in the 1975 hearings on Title II. The Register of Copyrights, Ms. Barbara Ringer, testified at the 1975 hearings on Title II of the Copyright Bill that the then Section 202 excluding protection for clothing designs "has been strongly criticized for its failure to protect the shape of wearing apparel. This was a hotly fought issue, and it was a simple case of expediency. The shape of wearing apparel has been cut out of the area protection of the bill, but this restriction does represent a hard-won compromise, and may well be the reason why there has been no opposition to the bill since 1969, other than the traditional opposition of the Department of Justice which has opposed separate design legislation from way back before the Mazer case." Hearings 1975 at 1859. This legislative history would indicate, as Ms. Ringer suggested for an earlier version of H.R. 20, that there is insufficient industry need at this time for protection of dress design and the political climate would at least delay passage of H.R. 20 if the subject was reintroduced.
21. See generally Hearing 1975, 991-1238.
22. *Id.* at 1096-1099, and 1154-1165, for examples of typeface designs.
23. *Id.* at 1859, where Ms. Ringer, Register of Copyrights, stated, "In our opinion, there is no question that truly original designs for typefaces can qualify for protection under the design title", referring to Title II that corresponded in all material respects on this issue to H.R. 20.
24. *Id.* at 1210; example of opposition to typeface protection as useful article design presented by Mr. Dew, representing Advertising Typographers Association; *id.* at 1861-64, where Ms. Ringer, Register of Copyrights, summarizes the arguments on each side and the compromises being considered, including compulsory licensing of typeface design registrations.
25. Nimmer on Copyrights, § 2.15 (1981), has a detailed review on the unsuccessful efforts for typeface protection, *see* footnote 21 re Copyright Office's refusal to change regulation prohibiting protection of typeface designs.
26. 17 U.S.C.A. §§ 106 and 501 (1981).

27. For a summary of the concern expressed by retailers and others, see Note, *Statutory Design—Rights: Solution for the Unfair Competition of Piracy*, 34 G.W. L. Rev. 110 (1965), beginning on 122.
28. Section 908(a) (2) (v) requires a dual test for infringement by an innocent seller or distributor who is not also a manufacturer or importer. Once they are notified of the alleged infringement, they are only liable if they both (1) reorder the alleged infringing goods, and (2) refuse to reveal the source.
29. Section 908(a)(2).
30. Section 908(b).
31. *Id.*
32. Section 908(c).
33. *Id.*
34. Sections 909(d)(4) and 916.
35. *A.F. Stoddard Co. Ltd. v. Dann*, 195 U.S.P.Q. 97 (D.C. Cir. 1977).
36. Hearings 1975 at 177, the first Copyright Office's statement at the 1975 Hearings was that it did not seek to administer the pending bill corresponding to an earlier version of H.R. 20, but it did offer to handle it, if asked.
37. *Id.* at 168, the Patent and Trademark Office sought the job of administering an earlier version of H.R. 20.
38. *Id.* at 1860, where the Copyright Office actively sought responsibility for administering an earlier version of H.R. 20.
39. *Id.* at 177, the Copyright Office general endorsements. *Id.* at 167, evidences the Patent and Trademark Officer earlier support for a version of H.R. 20 and the current Commissioner of Patent and Trademarks has stated his support for H.R. 20 in his speech at the 1981 Annual Meeting of the American Bar Association—Patent, Trademark and Copyright Section, ABA-PTC Section Summary of Proceedings 181 at 90. If there is any current objection to H.R. 20 by the Copyright Office, it has not been expressed publicly.
40. Hearing 1975 at 167.
41. Section 926.
42. Section 922(b).
43. 35 U.S.C.A. § 286 (1981)
44. Section 927(a), Title 17 U.S.C. § 2 is amended by H.R. 20, found at the end of the bill and the same provisions as repeated in § 903 of H.R. 20.
45. Hearings 1975 at 172 and 999, for example.
46. *See* material and Topic VII.D.
47. 17 U.S.C.A. § 401(a) (1981).
48. 17 U.S.C.A. § 405 (1981).
49. *See* material and Topic VII.C. and Section 928(b).
50. 35 U.S.C.A. § 172 (1981).
51. 35 U.S.C.A. §§ 103 and 171 (1981).
52. *See* material and Topic VII.D. and Section 929.
53. *See* material and Topic VII.E. and Section 929.

97TH CONGRESS
1ST SESSION

H.R.20

To amend the copyright law, title 17 of the United States Code, to provide for protection of ornamental designs of useful articles.

IN THE HOUSE OF REPRESENTATIVES

JANUARY 5, 1981

Mr. RAILSBACK introduced the following bill; which was referred to the Committee on the Judiciary

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A BILL

To amend the copyright law, title 17 of the United States Code, to provide for protection of ornamental designs of useful articles.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. Title 17, United States Code, is amended by adding at the end thereof the following new chapter:

"CHAPTER 9—PROTECTION OF ORNAMENTAL DESIGNS OF USEFUL ARTICLES

"Sec.
"901. Designs protected.
"902. Designs not subject to protection.
"903. Revision, adaptations, and rearrangements.
"904. Commencement of protection.
"905. Term of protection.
"906. The design notice.
"907. Effect of omission of notice.
"908. Infringement.
"909. Application for registration.
"910. Benefit of earlier filing date in foreign country.
"911. Oaths and acknowledgments.
"912. Examination of application and issue or refusal of registration.
"913. Certification of registration.
"914. Publication of announcements and indexes.
"915. Fees.
"916. Regulations.
"917. Copies of records.
"918. Correction of errors in certificates.
"919. Ownership and transfer.
"920. Remedy for infringement.
"921. Injunction.
"922. Recovery for infringement, and so forth.
"923. Power of court over registration.
"924. Liability for action on registration fraudulently obtained.
"925. Penalty for false marking.
"926. Penalty for false representation.
"927. Relation to copyright law.
"928. Relation to patent law.
"929. Common law and other rights unaffected.
"930. Administrator.
"931. Severability clause.
"932. Amendment of other statutes.
"933. Time of taking effect.
"934. No retroactive effect.
"935. Short title.

"DESIGNS PROTECTED

"SEC. 901. (a) The author or other proprietor of an original ornamental design of a useful article may secure the protection provided by this chapter upon complying with and subject to the provisions hereof.

"(b) For the purposes of this chapter—

"(1) A 'useful article' is an article which in normal use has an intrinsic utilitarian function that is not merely to portray the appearance of the article or to convey information. An article which normally is a part of a useful article shall be deemed to be a useful article.

"(2) The 'design of a useful article', hereinafter referred to as a 'design', consists of those aspects or elements of the article, including its two-dimensional or three-dimensional features of shape and surface, which make up the appearance of the article.

"(3) A design is 'ornamental' if it is intended to make the article attractive or distinct in appearance.

"(4) A design is 'original' if it is the independent creation of an author who did not copy it from another source.

"DESIGNS NOT SUBJECT TO PROTECTION

"SEC. 902. Protection under this chapter shall not be available for a design that is—

"(a) not original;

"(b) staple or commonplace, such as a standard geometric figure, familiar symbol, emblem, or motif, or other shape, pattern, or configuration which has become common, prevalent, or ordinary;

"(c) different from a design excluded by subparagraph (b) above only in insignificant details or in elements which are variants commonly used in the relevant trades;

"(d) dictated solely by a utilitarian function of the article that embodies it; or

"(e) composed of three-dimensional features of shape and surface with respect to men's, women's, and children's apparel, including undergarments and outerwear.

"REVISIONS, ADAPTATIONS, AND REARRANGEMENTS

"SEC. 903. Protection for a design under this chapter shall be available notwithstanding the employment in the design of subject matter excluded from protection under section 902 (b) through (d), if the design is a substantial revision, adaptation, or rearrangement of said subject matter: *Provided*, That such protection shall be available to a design employing subject matter protected under chapters 1 through 8 of this title, or title 35 of the United States Code or this chapter, only if such protected subject matter is employed with the consent of the proprietor thereof. Such protection shall be independent of any subsisting protection in subject matter employed in the design, and shall not be construed as securing any right to subject matter excluded from protection or as extending any subsisting protection.

"COMMENCEMENT OF PROTECTION

"SEC. 904. The protection provided for a design under this chapter shall commence upon the date of publication of the registration pursuant to section 912(a).

"TERM OF PROTECTION

"SEC. 905. (a) Subject to the provisions of this chapter, the protection herein

provided for a design shall continue for a term of five years from the date of the commencement of protection as provided in section 904, but if a proper application for renewal is received by the Administrator during the year prior to the expiration of the five-year term, the protection herein provided shall be extended for an additional period of five years from the date of expiration of the first five years.

"(b) Upon expiration or termination of protection in a particular design as provided in this chapter all rights under this chapter in said design shall terminate, regardless of the number of different articles in which the design may have been utilized during the term of its protection.

"THE DESIGN NOTICE

"SEC. 906. (a) Whenever any design for which protection is sought under this chapter is made public as provided in section 909(b), the proprietor shall, subject to the provisions of section 907, mark it or have it marked legibly with a design notice consisting of the following three elements:

"(1) the words 'Protected Design', the abbreviation 'Prot'd Des.' or the letter 'D' with a circle thus Ⓓ;

"(2) the year of the date on which the design was registered; and

"(3) the name of the proprietor, an abbreviation by which the name can be recognized, or a generally accepted alternative designation of the proprietor; any distinctive identification of the proprietor may be used if it has been approved and recorded by the Administrator before the design marked with such identification is registered.

After registration the registration number may be used instead of the elements specified in (2) and (3) hereof.

"(b) The notice shall be so located and applied as to give reasonable notice of design protection while the useful article embodying the design is passing through its normal channels of commerce. This requirement may be fulfilled, in the case of sheetlike or strip materials bearing repetitive or continuous designs, by application of the notice to each repetition, or to the margin, selvage, or reverse side of the material at reasonably frequent intervals, or to tags or labels affixed to the material at such intervals.

"(c) When the proprietor of a design has complied with the provisions of this section, protection under this chapter shall not be affected by the removal, destruction, or obliteration by others of the design notice on an article.

"EFFECT OF OMISSION OF NOTICE

"SEC. 907. The omission of the notice prescribed in section 906 shall not cause loss of the protection or prevent recovery for infringement against any person who, after written notice of the design protection, begins an undertaking leading to infringement: *Provided*, That such omission shall prevent any recovery under section 922 against a person who began an undertaking leading to infringement before receiving written notice of the design protection, and no injunction shall be had unless the proprietor of the design shall reimburse said person for any reasonable expenditure or contractual obligation in connection with such undertaking incurred before written notice of design protection, as the court in its discretion shall direct. The burden of providing written notice shall be on the proprietor.

"INFRINGEMENT

"SEC. 908. (a) It shall be infringement of a design protection under this chapter for any person, without the consent of the proprietor of the design, within the

United States or its territories or possessions and during the term of such protection, to—

"(1) make, have made, or import, for sale or for use in trade, any infringing article as defined in subsection (d) hereof; or

"(2) sell or distribute for sale or for use in trade any such infringement article: *Provided, however*, That a seller or distributor of any such article who did not make or import the same shall be deemed to be an infringer only if—

"(i) he induced or acted in collusion with a manufacturer to make, or an importer to import such article (merely purchasing or giving an order to purchase in the ordinary course of business shall not of itself constitute such inducement or collusion); or

"(ii) he refuses or fails upon the request of the proprietor of the design to make a prompt and full disclosure of his source of such article, and he orders or reorders such article after having received notice by registered or certified mail of the protection subsisting in the design.

"(b) It shall not be infringement to make, have made, import, sell, or distribute, any article embodying a design created without knowledge of, and copying from, a protected design.

"(c) A person who incorporates into his own product of manufacture an infringing article acquired from others in the ordinary course of business, or who, without knowledge of the protected design, makes or processes an infringing article for the account of another person in the ordinary course of business, shall not be deemed an infringer except under the conditions of clauses (i) and (ii) of paragraph (a)(2) of this section. Accepting an order or reorder from the source of the infringing article shall be deemed ordering or reordering within the meaning of clause (ii) of paragraph (a)(2) of this section.

"(d) An 'infringing article' as used herein is any article, the design of which has been copied from the protected design, without the consent of the proprietor: *Provided, however*, That an illustration or picture of a protected design in an advertisement, book, periodical, newspaper, photograph, broadcast, motion picture, or similar medium shall not be deemed to be an infringing article. An article is not an infringing article if it embodies, in common with the protected design, only elements described in subsections (a) through (d) of section 902.

"(e) The party alleging rights in a design in any action or proceeding shall have the burden of affirmatively establishing its originality whenever the opposing party introduces an earlier work which is identical to such design, or so similar as to make a prima facie showing that such design was copied from such work.

"APPLICATION FOR REGISTRATION

"SEC. 909. (a) Protection under this chapter shall be lost if application for registration of the design is not made within six months after the date on which the design was first made public.

"(b) A design is made public when, by the proprietor of the design or with his consent, an existing useful article embodying the design is anywhere publicly exhibited, publicly distributed, or offered for sale or sold to the public.

"(c) Application for registration or renewal may be made by the proprietor of the design.

"(d) The application for registration shall be made to the Administrator and shall state (1) the name and address of the author or authors of the design; (2) the name and address of the proprietor if different from the author; (3) the specific name of the article, indicating its utility; and (4) such other information as may be required by the Administrator. The application for registration may include a

description setting forth the salient features of the design, but the absence of such a description shall not prevent registration under this chapter.

"(e) The application for registration shall be accompanied by a statement under oath by the applicant or his duly authorized agent or representative, setting forth that, to the best of his knowledge and belief (1) the design is original and was created by the author or authors named in the application; (2) the design has not previously been registered on behalf of the applicant or his predecessor in title; and (3) the applicant is the person entitled to protection and to registration under this chapter. If the design has been made public with the design notice prescribed in section 906, the statement shall also describe the exact form and position of the design notice.

"(f) Error in any statement or assertion as to the utility of the article named in the application, the design of which is sought to be registered shall not affect the protection secured under this chapter.

"(g) Errors in omitting a joint author or in naming an alleged joint author shall not affect the validity of the registration, or the actual ownership or the protection of the design: *Provided*, That the name of one individual who was in fact an author is stated in the application. Where the design was made within the regular scope of the author's employment and individual authorship of the design is difficult or impossible to ascribe and the application so states, the name and address of the employer for whom the design was made may be stated instead of that of the individual author.

"(h) The application for registration shall be accompanied by two copies of a drawing or other pictorial representation of the useful article having one or more views, adequate to show the design, in a form and style suitable for reproduction, which shall be deemed a part of the application.

"(i) Where the distinguishing elements of a design are in substantially the same form in a number of different useful articles, the design shall be protected as to all such articles when protected as to one of them, but not more than one registration shall be required.

"(j) More than one design may be included in the same application under such conditions as may be prescribed by the Administrator. For each design included in an application the fee prescribed for a single design shall be paid.

"BENEFIT OF EARLIER FILING DATE IN FOREIGN COUNTRY

"SEC. 910. An application for registration of a design filed in this country by any person who has, or whose legal representative or predecessor or successor in title has previously regularly filed an application for registration of the same design in a foreign country which affords similar privileges in the case of application filed in the United States or to citizens of the United States shall have the same effect as if filed in this country on the date on which the application was first filed in any such foreign country, if the application in this country is filed within six months from the earliest date on which any such foreign application was filed.

"OATHS AND ACKNOWLEDGMENTS

"SEC. 911. (a) Oaths and acknowledgments required by this chapter may be made before any person in the United States authorized by law to administer oaths, or, when made in a foreign country, before any diplomatic or consular officer of the United States authorized to administer oaths, or before any official authorized to administer oaths in the foreign country concerned, whose authority shall be proved by a certificate of a diplomatic or consular officer of the United

States, and shall be valid if they comply with the laws of the state or country where made.

"(b) The Administrator may by rule prescribe that any document to be filed in the Office of the Administrator and which is required by any law, rule, or other regulation to be under oath may be subscribed to by a written declaration in such form as the Administrator may prescribe, such declaration to be in lieu of the oath otherwise required.

"(c) Whenever a written declaration as permitted in subsection (b) is used, the document must warn the declarant that willful false statements and the like are punishable by fine or imprisonment, or both (18 U.S.C. 1001) and may jeopardize the validity of the application or document or a registration resulting therefrom.

"EXAMINATION OF APPLICATION AND ISSUE OR REFUSAL OF REGISTRATION

"SEC. 912. (a) Upon the filing of an application for registration in proper form as provided in section 909, and upon payment of the fee provided in section 915, the Administrator shall determine whether or not the application relates to a design which on its face appears to be subject to protection under this chapter, and if so the Administrator shall register the design. Registration under this subsection shall be announced by publication. The date of registration shall be the date of publication.

"(b) If, in the judgment of the Administrator, the application for registration relates to a design which on its face is not subject to protection under this chapter, the Administrator shall send the applicant a notice of refusal to register and the grounds therefor. Within three months from the date the notice of refusal is sent, the applicant may request, in writing, reconsideration of his application. After consideration of such a request, the Administrator shall either register the design or send the applicant a notice of final refusal to register.

"(c) Any person who believes he is or will be damaged by a registration under this chapter may, upon payment of the prescribed fee, apply to the Administrator at any time to cancel the registration on the ground that the design is not subject to protection under the provisions of this chapter, stating the reasons therefor. Upon receipt of an application for cancellation, the Administrator shall send the proprietor of the design, as shown in the records of the Office of the Administrator, a notice of said application, and the proprietor shall have a period of three months from the date such notice was mailed in which to present arguments in support of the validity of the registration. It shall also be within the authority of the Administrator to establish, by regulation, conditions under which the opposing parties may appear and be heard in support of their arguments. If, after the periods provided for the presentation of arguments have expired, the Administrator determines that the applicant for cancellation has established that the design is not subject to protection under the provisions of this chapter, he shall order the registration stricken from the record. Cancellation under this subsection shall be announced by publication, and notice of the Administrator's final determination with respect to any application for cancellation shall be sent to the applicant and to the proprietor of record.

"(d) When a design has been registered under this section, the lack of utility of any article in which it has been embodied shall be no defense to an infringement

action under section 920, and no ground for cancellation under subsection (c) of this section or under section 923.

"CERTIFICATION OF REGISTRATION

"SEC. 913. Certificates of registration shall be issued in the name of the United States under the seal of the Office of the Administrator and shall be recorded in the official records of that office. The certificate shall state the name of the useful article, the date of filing of the application, the date of registration, and shall contain a reproduction of the drawing or other pictorial representation showing the design. Where a description of the salient features of the design appears in the application, this description shall also appear in the certificate. A renewal certificate shall contain the date of renewal registration in addition to the foregoing. A certificate of initial or renewal registration shall be admitted in any court as prima facie evidence of the facts stated therein.

"PUBLICATION OF ANNOUNCEMENTS AND INDEXES

"SEC. 914. (a) The Administrator shall publish lists and indexes of registered designs and cancellations thereof and may also publish the drawing or other pictorial representations of registered designs for sale or other distribution.

"(b) The Administrator shall establish and maintain a file of the drawings or other pictorial representations of registered designs, which file shall be available for use by the public under such conditions as the Administrator may prescribe.

"FEES

"SEC. 915. (a) There shall be paid to the Administrator the following fees:

"(1) On filing each application for registration or for renewal of registration of a design, $15.

"(2) For each additional related article included in one application, $10.

"(3) For recording an assignment, $3 for the first six pages, and for each additional two pages or less, $1.

"(4) For a certificate of correction of an error not the fault of the Office, $10.

"(5) For a certification of copies of records, $1.

"(6) On filing each application for cancellation of a registration, $15.

"(b) The Administrator may establish charges for materials or services furnished by the Office, not specified above, reasonably related to the cost thereof.

"REGULATIONS

"SEC. 916. The Administrator may establish regulations not inconsistent with law for the administration of this chapter.

"COPIES OF RECORDS

"SEC. 917. Upon payment of the prescribed fee, any person may obtain a certified copy of any official record of the Office of the Administrator, which copy shall be admissible in evidence with the same effect as the original.

"CORRECTION OF ERRORS IN CERTIFICATES

"SEC. 918. The Administrator may correct any error in a registration incurred

through the fault of the Office, or, upon payment of the required fee, any error of a clerical or typographical nature not the fault of the Office occurring in good faith, by a certificate of correction under seal. Such registration, together with the certificate, shall thereafter have the same effect as if the same had been originally issued in such corrected form.

"OWNERSHIP AND TRANSFER

"SEC. 919. (a) The property right in a design subject to protection under this chapter shall vest in the author, the legal representatives of a deceased author or of one under legal incapacity, the employer for whom the author created the design in the case of a design made within the regular scope of the author's employment, or a person to whom the rights of the author or of such employer have been transferred. The person or persons in whom the property right is vested shall be considered the proprietor of the design.

"(b) The property right in a registered design, or a design for which an application for registration has been or may be filed, may be assigned, granted, conveyed, or mortgaged by an instrument in writing, signed by the proprietor, or may be bequeathed by will.

"(c) An acknowledgment as provided in section 911 shall be prima facie evidence of the execution of an assignment, grant, conveyance, or mortgage.

"(d) An assignment, grant, conveyance, or mortgage shall be void as against any subsequent purchaser or mortgagee for a valuable consideration, without notice, unless it is recorded in the Office of the Administrator within three months from its date of execution or prior to the date of such subsequent purchase or mortgage.

"REMEDY FOR INFRINGEMENT

"SEC. 920. (a) The proprietor of a design shall have remedy for infringement by civil action instituted after issuance of a certificate of registration of the design.

"(b) The proprietor of a design may have judicial review of a final refusal of the Administrator to register the design, by a civil action brought as for infringement and shall have remedy for infringement by the same action if the court adjudges the design subject to protection under this chapter: *Provided*, That (1) he has previously duly filed and duly prosecuted to such final refusal an application in proper form for registration of the design, and (2) he causes a copy of the complaint in action to be delivered to the Administrator within ten days after the commencement of the action, and (3) the defendant has committed acts in respect to the design which would constitute infringement with respect to a design protected under this chapter.

"(c) The Administrator may, at his or her option, become a party to the action with respect to the issue of registrability of the design claim by entering an appearance within sixty days after such service, but the Administrator's failure to become a party shall not deprive the court of jurisdiction to determine that issue.

"INJUNCTION

"SEC. 921. The several courts having jurisdiction of actions under this chapter may grant injunctions in accordance with the principles of equity to prevent infringement, including, in their discretion, prompt relief by temporary restraining orders and preliminary injunctions.

"RECOVERY FOR INFRINGEMENT, AND SO FORTH

"SEC. 922. (a) Upon finding for the claimant the court shall award such claimant damages adequate to compensate for the infringement, but in no event less than

the reasonable value the court shall assess them. In either event the court may increase the damages to such amount, not exceeding $5,000 or $1 per copy, whichever is greater, as to the court shall appear to be just. The damages awarded in any of the above circumstances shall constitute compensation and not a penalty. The court may receive expert testimony as an aid to the determination of damages.

"(b) No recovery under paragraph (a) shall be had for any infringement committed more than three years prior to the filing of the complaint.

"(c) The court may award reasonable attorney's fees to the prevailing party. The court may also award other expenses of suit to a defendant prevailing in an action brought under section 920(b).

"(d) The court may order that all infringing articles, and any plates, molds, patterns, models, or other means specifically adapted for making the same be delivered up for destruction or other disposition as the court may direct.

"POWER OF COURT OVER REGISTRATION

"SEC. 923. In any action involving a design for which protection is sought under this chapter, the court when appropriate may order registration of a design or the cancellation of a registration. Any such order shall be certified by the court to the Administrator, who shall make an appropriate entry upon the record.

"LIABILITY FOR ACTION ON REGISTRATION FRAUDULENTLY OBTAINED

"SEC. 924. Any person who shall bring an action for infringement knowing that registration of the design was obtained by a false or fraudulent representation materially affecting the rights under this chapter, shall be liable in the sum of $1,000, or such part thereof as the court may determine, as compensation to the defendant, to be charged against the plaintiff and paid to the defendant, in addition to such costs and attorney's fees of the defendant as may be assessed by the court.

"PENALTY FOR FALSE MARKING

"SEC. 925. (a) Whoever, for the purpose of deceiving the public, marks upon, or applies to, or uses in advertising in connection with any article made, used, distributed, or sold, the design of which is not protected under this chapter, a design notice as specified in section 906 or any other words or symbols importing that the design is protected under this chapter, knowing that the design is not so protected, shall be fined not more than $500 for every such offense.

"(b) Any person may sue for the penalty, in which event, one-half shall go to the person suing and the other to the use of the United States.

"PENALTY FOR FALSE REPRESENTATION

"SEC. 926. Whoever knowingly makes a false representation materially affecting the rights obtainable under this chapter for the purpose of obtaining registration of a design under this chapter shall be fined not less than $500 and not more than $1,000, and any rights or privileges he may have in the design under this chapter shall be forfeited.

"RELATION TO COPYRIGHT LAW

"SEC. 927. (a) Nothing in this chapter shall affect any right or remedy now or

hereafter held by any person under chapters 1 through 8 of this title, subject to the provisions of section 113 of this title.

"(b) When a pictorial, graphic, or sculptural work in which copyright subsists under chapters 1 through 8 of this title is utilized in an original ornamental design of a useful article, by the copyright proprietor or under an express license from such proprietor, the design shall be eligible for protection under the provisions of this chapter.

"RELATION TO PATENT LAW

"SEC. 928. (a) Nothing in this chapter shall affect any right or remedy available to or held by any person under title 35 of the United States Code.

"(b) The issuance of a design patent for an ornamental design for an article of manufacture under said title 35 shall terminate any protection of the design under this chapter.

"COMMON LAW AND OTHER RIGHTS UNAFFECTED

"SEC. 929. Nothing in this chapter shall annul or limit (1) common law or other rights or remedies, if any, available to or held by any person with respect to a design which has not been registered under this chapter, or (2) any trademark rights or right to be protected against unfair competition.

"ADMINISTRATOR

"SEC. 930. The Administrator and Office of the Administrator referred to in this chapter shall be such officer and office as the President may designate.

"SEVERABILITY CLAUSE

"SEC. 931. If any provisions of this chapter or the application of such provision to any person or circumstance is held invalid, the remainder of the chapter or the application to other persons or circumstances shall not be affected thereby.

"AMENDMENT OF OTHER STATUTES

"SEC. 932. Title 28 of the United States Code is amended—

"(a) by inserting 'designs,' after 'patents,' in the first sentence of section 1338(a);

"(b) by inserting 'design,' after 'patent' in the second sentence of section 1338(a);

"(c) by inserting 'design,' after 'copyright,' in section 1338(b);

"(d) by inserting 'and registered designs' after 'copyrights' in section 1400; and

"(e) by revising section 1498(a) to read as follows:

" '(a) Whenever a registered design or invention described in and covered by a patent of the United States is used or manufactured by or for the United States without license of the owner thereof or lawful right to use or manufacture the same, the owner's remedy shall be by action against the United States in the Court of Claims for the recovery of his reasonable and entire compensation for such use and manufacture.

" 'For the purposes of this section, the use or manufacture of a registered design or an invention described in and covered by a patent of the United States by a contractor, a subcontractor, or any person, firm, or corporation for

the Government and with the authorization or consent of the Government, shall be construed as use or manufacture for the United States.

" 'The court shall not award compensation under this section if the claim is based on the use or manufacture by or for the United States of any article owned, leased, used by, or in the possession of the United States, prior to, in the case of an invention, July 1, 1918, and in the case of a registered design, July 1, 1980.

" 'A Government employee shall have the right to bring suit against the Government under this section except where he was in a position to order, influence, or induce use of the registered design or invention by the Government. This section shall not confer a right of action on any design registrant or patentee or any assignee of such design registrant or patentee with respect to any design created by or invention discovered or invented by a person while in the employment or service of the United States, where the design or invention was related to the official functions of the employee, in cases in which such functions included research and development, or in the making of which Government time, materials, or facilities were used.'.

"TIME OF TAKING EFFECT

"SEC. 933. This chapter shall take effect one year after enactment of this Act.

"NO RETROACTIVE EFFECT

"SEC. 934. Protection under this chapter shall not be available for any design that has been made public as provided in section 909(b) prior to the effective date of this chapter.

"SHORT TITLE

"SEC. 935. This chapter may be cited as the 'Design Protection Act of 1980.' ".

SEC. 2. Title 17, United States Code, section 113, is amended by adding at the end thereof the following new subparagraphs:

"(d) When a pictorial, graphic, or sculptural work in which copyright subsists under chapters 1 through 8 of this title is utilized in an original ornamental design of a useful article, by the copyright proprietor or under an express license from him, the design shall be eligible for protection under the provisions of chapter 9 of this title.

"(e) Protection under chapters 1 through 8 of this title of a work in which copyright subsists shall terminate with respect to its utilization in useful articles whenever the copyright proprietor has obtained registration of an ornamental design of a useful article embodying said work under the provisions of chapter 9 of this title. Unless and until the copyright proprietor has obtained such registration, the copyright pictorial, graphic, or sculptural work shall continue in all respects to be covered by and subject to the protection afforded by the copyright subsisting under chapters 1 through 8 of this title.

"(f) Nothing in this section shall affect any right or remedy held by any person under chapters 1 through 8 of this title in a work in which copyright was subsisting on the effective date of chapter 9 of this title, or with resepct to any uulization of a copyrighted work other than in the design of a useful article.".

TESTIMONY OF RON STONE, EXECUTIVE DIRECTOR FOR GOVERNMENTAL AFFAIRS OF THE NATIONAL MARINE MANUFACTURERS ASSOCIATION, IN SUPPORT OF S.791 BEFORE THE SENATE SUBCOMMITTEE ON PATENTS, COPYRIGHTS AND TRADEMARKS

The National Marine Manufacturers Association ("NMMA") is pleased to register its support of S.791, which would protect industrial designs, such as boat hulls, from unauthorized copying. NMMA is a voluntary non-profit trade association with approximately 1,300 members. NMMA's members manufacture boats, boat engines, boat components and accessories and perform related services in the recreational boating industry. Collectively, NMMA's members represent over 85 percent of the recreational boating industry. The products produced by NMMA's members provide pleasure and leisure time activities to hundreds of thousands of American consumers each year.

NMMA's members are vitally interested in the enactment of legislation to protect industrial designs. NMMA's members have been victimized by companies, both foreign and domestic, who copy hull designs produced after much expensive and painstaking research and development. In fact, the unauthorized copying of boat designs has been such a recurring problem that the industry has coined a word for it: "hull splashing". NMMA members believes that Congress should enact legislation to make illegal the unauthorized pirating of boat designs and other industrial designs.

Designing a boat is an expensive, complicated process. A company manufactures boats of a given design only after much trial and error. The process generally entails conceiving a design, having the conception rendered into drawings, converting the drawings into a full scale design, which is then rendered into a wooden model or "plug". The model is then honed into a master plug, from which the final mold is made. Each of these steps requires a considerable amount of engineering expertise and artistry, as well as considerable labor. At each step, the design is assessed for such factors as aesthetic appeal,

stability, riding characteristics, handling characteristics, and safety. The boat manufacturers rely on their considerable experience in determining the overall appearance and precise elements of a particular model of boat. Among the more subtle features bearing on safety include the transom strength, the placement of the engine, the composition of the fiberglass, the necessary amount of foam flotation, and wiring and steering elements. NMMA's members are fully aware of the Coast Guard's regulations governing safety features, and their boats meet or exceed those standards.

Before being manufactured on a commercial scale, the boats are tested repeatedly and any necessary modifications made. Sometimes, as with any creative process, a boat design thought to hold promise does not measure up to a manufacturer's standards and the entire project is scrapped. The design process is quite expensive and can range from approximately $30,000 to $500,000 for a single model, with $100,000 to $200,000 a typical figure. Boat manufacturers generally spend million of dollars a year on research and development of boat hull designs alone.

In view of the considerable monetary and technological investment that NMMA's members make in every boat design, NMMA's members are understandably irate when they are victimized by pirates who copy their boat designs. Those copiers usually use a genuine boat as a mold, applying fiberglass to the real boat to create "knock off" boats. A genuine boat is thus used to create clones, which may resemble the real thing but are far inferior in quality.

As the "knock off" artists have no overhead and did not independently create the boat design, they are able to sell their products at considerably lower prices. They are not bashful about their thievery -- they promote their boats as "just like" the genuine boat and may even use the real manufacturer's promotional literature in selling their fraudulent products. The pirates are not attuned to the subtleties of the full design and manufacturing process, however. Indeed, they are not likely to heed -- or even to know about -- the Coast Guard's safety

regulations. As a result, the "knock off" boats undoubtedly lack the necessary safety features built into the genuine articles. The transoms of the copies may be unduly weak; the fiberglass may not have the proper composition; and the foam flotation may not be adequate to guard against sinking. As a result, buyers of such counterfeit boats unknowingly jeopardize their own safety.

The reputation of NMMA's members is also jeopardized by "knock off" boats. For instance, a boat may look like a popular boat, but not perform like the genuine boat. The "knock off" may even fall apart. Disappointed boaters undoubtedly blame the manufacturer of the genuine boat for the substandard performance of the "knock off". Indeed, the buyer of the "knock off" boat was likely duped into believing that the copy was authorized by the real manufacturer because it looked like the genuine article. Or the buyer may have believed the copier's claim that the "knock off" was just like the genuine boat.

Current law does not provide adequate protection against "hull splashing". In order to obtain a design patent, the design must be novel and unobvious. In most cases, those standards are simply too stringent for a boat manufacturer to meet. Designing boats is a fluid process, and improvements are continually being made to existing models. If the design of a new generation of boats is deemed to have been anticipated by prior models, it will not be protected by a design patent. Current copyright law also fails to protect the design of a boat. Under the present Copyright Act, no protection is given to the overall design of a utilitarian object, even if the design is determined by aesthetic as well as functional considerations. S.791 would therefore plug a gaping hole in current law.

Design protection legislation is sorely needed to acknowledge the creativity inherent in industrial designs and to protect the significant investment boat manufacturers make in producing and refining their designs. Not only money and design expertise are at stake; so is the safety of millions of Americans who enjoy boating. For these reasons, NMMA urges the enactment of S.791.

Statement of Ralph Oman
Register of Copyrights and
Assistant Librarian for Copyright Services

Before the Subcommittee on Patents, Copyrights, and Trademarks
Senate Committee on the Judiciary
100th Congress, First Session
March 26, 1987

I appreciate the opportunity to submit written comments on S. 791, the Industrial Innovation and Technology Act of 1987, which proposes to establish sui generis protection for industrial designs of useful articles.

Over the years, Congress has considered many proposals to protect the designs of industrial products. The present bill is based on a bill first introduced in 1957. It would extend to the creators of original designs of useful articles, which are intended to be attractive or distinct in appearance, a new form of intellectual property protection based on modified copyright principles. The bill seeks to fill the gap between the existing copyright statute and the design patent statute by providing simple, easily secured, and effective design protection for a period of 10 years, under certain safeguards and conditions.

Designs of industrial products are now protected by design patents issued under title 35, United States Code, if they meet the statutory requirements. A design patent may not be issued until a search has been made to determine that the design possesses novelty. The design patent law, while affording protection to some designs, has proved inadequate to protect most designs either because the design cannot meet the novelty test as applied by the courts or the time required to obtain a patent exceeds its useful commercial life.

The copyright law, title 17 of the United States Code, is equally inappropriate for the protection of most industrial designs. Under the definition of "pictorial, graphic, and sculptural works" in the copyright law, the design of a useful article is copyrightable "only if, and only to the extent that, such design incorporates pictorial, graphic, or sculptural features that can be identified separately from, and are capable of existing independently of, the utilitarian aspects of the article."1/ Nor would it be appropriate to expand copyright law to protect additional designs of useful articles because the term of protection under copyright would be too long for the majority of designs, and the scope of protection would be too broad.

I. ANALYSIS OF S. 791

Section 1001(a) provides that the author or other proprietor of an original design of a useful article, which is intended to make the article attractive or distinct in appearance to the public, may secure protection upon complying with certain provisions. This fundamental provision creates a two-pronged subject matter standard, one of which is objective and the other subjective. The originality prong -- based on copyright law -- is an objective test. Few designs of useful articles would be excluded on this basis. The more critical prong -- attractiveness or distinctness -- seems entirely subjective: this test does not require a finding either at the administrative or judicial level that the design is attractive or distinct, perhaps based on expert opinion or comparison with known designs; instead, the test is simply the intention of the designer to

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1. Title 17, U.S.C., §101 (definition of "pictorial, graphic, and sculptural works").

create a design that is attractive or distinct to the purchasing or using public. Again, few designs of useful articles would fail the test, especially since the design need only be intended to be attractive or distinct. The subject matter coverage of the bill thus seems very broad, encompassing virtually every man-made article of use except wearing apparel, unless one of the exclusion criteria of section 1002 applies.

Section 1001(b) defines the terms "useful article," "design of a useful article," "original," and "typeface." In addition, it provides that a typeface design is subject to protection when its design elements are original, attractive or distinct, and incorporated in a useful article whose normal use is in composing text or other cognizable combination of characters. Unlike the general subject matter standard, typeface designs are governed by a potentially objective standard of attractiveness, or distinctness, rather than the intention of the designer.

Section 1002 specifies the exclusionary criteria. Under paragraph (a) protection shall not be available for a design that is: unoriginal; staple or commonplace; different from a design that is staple, or commonplace only in insignificant details; dictated solely by a utilitarian function of the article that embodies it; the three-dimensional features of shape and surface with respect to an article of apparel; or a semiconductor chip product protected under chapter 9 of title 17. Paragraph (b) precludes protection based on an idea, procedure, process, system, method of operation, concept, principle, or discovery.

Under section 1003 designs otherwise excluded by section 1002(a)(2) through (4) may nevertheless be protected if the design is a substantial revision, adaptation, or rearrangement of the subject matter. Such protection shall be independent of any subsisting protection in

subject matter employed in the design, and shall not be construed as securing any right to subject matter excluded from protection or as extending any subsisting protection.

Section 1004 provides that protection shall commence upon the date of publication of the registration pursuant to section 1012(a), or the date the design is first made public, whichever is earlier. A design is made public when an existing useful article embodying the design is publicly exhibited, publicly distributed, or offered for sale or sold to the public.

Section 1005 concerns the term of protection, and provides that protection continues for a term of 10 years from the date of commencement of protection. All terms of protection run to the end of the calendar year in which they would otherwise expire. Upon termination of protection in a particular design, protection under the Industrial Innovation and Technology Act of 1987 ends in all of the different articles in which the design may have been utilized. Copyright protection in separable, artistic features would not end, however, upon expiration of protection in a registered design (proposed amendment to section 113 of the Copyright Act, as found in SEC. 7).

Sections 1006 and 1007 concern the design notice. Three elements comprise the design notice: the words "Protected Design," the abbreviation "Prot'd Des.," or the symbols "Ⓓ" or "*D*," the year protection begins, and the proprietor's name or recognizable abbreviation or accepted alternative designation. The notice shall be located so as to give reasonable notice of design protection while the useful article embodying the design is passing through normal channels of commerce. Removal, destruction, or obliteration by others of the design notice shall not

affect protection for a complying proprietor. Omission of the notice shall not cause loss of protection or prevent recovery for infringement against persons who, after written notice of the design protection, begin an undertaking leading to infringement. However, such omission shall prevent recovery against a person who began an undertaking leading to infringement before receiving notice, and no injunction shall be issued unless the proprietor of the design shall reimburse the infringer for any reasonable expenditure or obligation in connection with an undertaking incurred before written notice of design protection.

Section 1008 governs what constitutes infringement of a protected design. An infringer is any person who, without the consent of the proprietor of a design, makes, has made, or imports for sale or for use in trade, any infringing article or sells or distributes for sale or for use in trade any such infringing article. The section contains the retailer exemption, which represents one of the most important limitations on liability. A seller or distributor of any infringing article who did not make or import the same shall be deemed to be an infringer only if the retailer induced or acted in collusion with a manufacturer to make, or an importer to import, such article, or if the retailer refuses or fails to make a prompt disclosure of the source of such article, and orders or reorders such article after having received a personal written notice of design protection. Also, it shall not be infringement to make, have made, import, sell, or distribute any article embodying a design created without knowledge of, and copying from, a protected design.

Section 1008(c) exempts the innocent manufacturer who satisfies the same conditions as entitle retailers to an exemption. Thus, a person who incorporates into his or her own product of manufacture an infringing

article acquired from others in the ordinary course of business or who, without knowledge of the protected design, makes or processes an infringing article for the account of another person, shall not be deemed an infringer absent collusion or a refusal to disclose the source of the infringing design.

Pictures of protected designs which appear in advertisements, books, periodicals, newspapers, photographs, broadcasts, motion pictures, or other similar mediums are exempt since they are not deemed "infringing articles."

The party alleging the validity of a registered design has the burden of affirmatively establishing its originality whenever the opposing party introduces an earlier work that is identical to such design or so similar as to make a prima facie showing that the registered design was copied from such work.

Finally, it is not an infringement for a person to reproduce the design in a useful article solely for the purpose of teaching, analyzing, or evaluating the appearance, concepts, or techniques embodied in the design, or the function of the useful article embodying the design.

Section 1009 provides for the registration process. Registration must be sought within one year after the design is first made public. Section 1009(d) establishes the information required to be in the application for registration, and section 1009(e) requires an accompanying oath setting forth certain matters which must be sworn to by the applicant. An error in any statement or assertion as to the utility of the article shall not affect protection. Errors in omitting a joint author shall not affect the validity of the registration, or the actual ownership of the protected design, provided that one individual who was in fact an author is named in

the application. The application shall be accompanied by two copies of a drawing or other pictorial representation of the useful article. Only one registration is necessary to protect distinguishing design features common to different useful articles. The Administrator may establish conditions whereby more than one design would be included for a single fee in an application for registration.

Under section 1010, an application for registration of a design in this country by a person who has previously filed for registration of the same design in a foreign country which affords similar privileges to U.S. citizens, shall have the same effect as if filed in this country on the date on which the application was first filed in such foreign country, if the United States application is filed within 6 months from the earliest date of any foreign application.

Section 1011 prescribes the procedures for administering the oaths and acknowledgments required by the act.

Section 1012 governs examination procedures and the effect of a refusal to register. It mandates facial examination of the claim, which is similar to copyright claims examination. The prior art would not be searched. Upon the filing of an application and payment of the application fee, the Administrator determines whether or not the application relates to a design which, on its face, appears to be subject to protection and, if so, shall register the design. If the Administrator determines that the design is not subject to protection, the Administrator notifies the applicant, who has 3 months to request reconsideration of the application.

Section 1012(c) allows cancellation of designs in proceedings similar to trademark interferences. Any person who believes he or she is or may be damaged by a registration may, upon payment of a fee, apply to

the Administrator at any time to cancel any registration on the ground that the design is not subject to protection. This paragraph details the procedures to be followed in such cancellation proceedings.

Section 1012(d) provides that when a design has been registered, the lack of utility of any article in which it has been embodied shall be no defense to an infringement action and no ground for cancellation. This obviates any necessity to show that the purported "useful article" really functions.

Section 1013 authorizes the issuance of certificates of registration and provides for the contents thereof.

Section 1014 instructs the Administrator to publish lists and indexes of registered designs and cancellations thereof and authorizes publication of the drawings or other pictorial representations of registered designs. The Administrator must also establish and maintain a file of the drawings or other pictorial representations of registered designs.

Section 1015(a) specifies the fees which shall be paid to the Administrator for certain services, including cancellation proceedings. Section 1015(b) authorizes the Administrator to establish charges for materials or services that are not specified in paragraph (a).

Sections 1016 through 1018 provide for various administrative matters, including the issuance of regulations for the administration of the act, obtaining certified copies of official records, correction of errors in registration that occur through the fault of the Office of the Administrator.

Section 1019 governs ownership and transfer. Paragraph (a) identifies those in whom the property right in the design shall vest and provides that the person or persons in whom the property right is vested

shall be considered the proprietor of the design. This is generally the author, or if the design is created within the scope of employment, the employer. Ownership of the property right in a registered design or a design for which an application for registration has been or may be filed is transferred by an instrument in writing. An assignment, grant, or conveyance shall be void as against any subsequent purchaser or mortgagee for valuable consideration without notice, unless it is recorded in the Office of the Administrator within 3 months from its date of execution or prior to the date of such subsequent purchase or mortgage.

Sections 1020 to 1022 establish the remedies for infringement. Registration is a prerequisite to a suit for infringement, but a refusal to register can be reviewed as part of an infringement action if the Administrator is notified of the action. The Administrator has the right to enter cases which have been refused registration. Section 1020(d) provides an alternative, voluntary procedure for settling disputes by arbitration.

Remedies for infringement include injunctive relief and damages adequate to compensate for the infringement, but in no event less than the reasonable value of the use made of the design by the infringer. The court may increase the damages to an amount not exceeding $50,000 or $1 per copy whichever is greater. As an alternative to damages, the court may give the claimant the infringer's profits resulting from the sale of the copies if the infringer's sales are reasonably related to the use of the claimant's design. Reasonable attorney's fees may be awarded to the prevailing party. Section 1022(e) authorizes the destruction or other disposition as the court may direct of all infringing articles and devices employed in the making of infringing articles.

Section 1023 authorizes the court to order either the registration of a design or the cancellation of a registration.

Section 1024 provides a penalty of $1000 for any person bringing an action for infringement knowing that registration of the design was obtained by a false or fraudulent representation.

Sections 1025 and 1026 establish penalties for the false marking of a design which is not protected under the act ($500), and for knowingly making a false representation materially affecting rights obtainable under the act in order to obtain registration ($500-$1000).

Sections 1027 through 1029 govern the relationship between design protection and other intellectual property laws. These are among the most significant provisions of the bill. Section 1027(a) provides that nothing in the act will affect rights established under the copyright law, chapters 1 through 8 of title 17. Section 1027(b) provides when a pictorial, graphic, or sculptural work protected under the copyright law is utilized in an ornamental design of a useful article, the design will be eligible for protection under the design act. This section, together with SEC. 7's proposed amendment to section 113 of the Copyright Act allows dual copyright and design protection in the same artistic features. Many previous design bills had required an election of copyright or design protection.

Section 1028(a) provides that nothing in this legislation shall affect any right or remedy available to any person under title 35 of the United States Code. Unlike the duality of protection for copyright and chapter 10 designs, section 1028(b) provides that the issuance of a design patent for an ornamental design under title 35 shall terminate any protection of the design under this legislation.

Section 1029 specifies that nothing in this legislation shall restrict (1) common law or other rights or remedies available with respect to a design which has not been registered under chapter 10, or (2) any trademark rights or right to be protected against unfair competition.

Section 1030(a) designates the Register of Copyrights as the official responsible for the administration of the act. Section 1030(b) codifies the act as chapter 10 of title 17.

S. 791 additionally proposes several supplementary and transitional provisions, and amendments to other federal statutes. Title 28 section 1498(a) is amended to provide a remedy where the United States government makes unauthorized use of a protected design. Another provision denies any retroactive effect to designs made public before the effective date of the act. Finally, as noted above, section 113 of title 17 is amended by a provision providing that copyright protection in pictorial, graphic, or sculptural works is not terminated upon utilization in useful articles even though design registration is also obtained under the new chapter 10.

II. HISTORY OF PROPOSALS ADVANCING DESIGN PROTECTION

The development of modern manufacturing techniques gave impetus to proposals for establishing design protection. Through mass production, costs of manufactured goods were kept low, and often an article's attractive design was the primary factor affecting the sale of the item. Competitors, moreover, were able to market competing designs within a matter of months.

Not surprisingly, the first industry to see value in design protection was the clothing industry.2/ In the early 1900's demand for "ready-made" clothing rose rapidly, and competition among manufacturers for popular designs was keen. In 1913, the Register of Copyrights issued a report urging amendment of the copyright law in order to "secure the protection of ornamental designs for articles of manufacture."3/ The following year a bill was introduced for that purpose.4/ The design patent law, which had been revised in 1902, was already considered inadequate to protect modern designs of useful articles.

Given congressional inaction on the early design proposals, clothing manufacturers turned to the courts, with the hope of securing protection under unfair competition principles. The Supreme Court opinion in International News Service v. The Associated Press,5/ and a minority line of cases finding imitation to be a form of unfair competition,6/ gave rise to the hope that design piracy could be addressed without resort to a new federal enactment. Those hopes were crushed by the decision in Cheney Brothers v. Doris Silk Corp.,7/ where Judge Learned Hand refused to protect fabric designs under unfair competition principles.

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2. M. Weikart, "Design Piracy," 19 Ind.L.J. 235 (1944).

3. T. Solberg, "The Present Copyright Situation," 40 Yale L.J. 184, 187 (1930).

4. H.R. 11321, 63rd Cong., 2d Sess. (1914).

5. 248 U.S. 215 (1918).

6. Rushmore v. Badger Brass Mfg. Co., 198 Fed. 379 (2d Cir. 1912); Yale & Towne Mfg. Co. v. Alder, 154 Fed. 37 (2d Cir. 1907).

7. 35 F.2d 279 (2d Cir. 1929).

In the late 1920's, Congress made several serious efforts to enact design protection. Most important of these efforts was the Vestal Bill, which passed the House of Representatives in 1930. Opposition from retailers and certain segments of the manufacturing industry, however, contributed significantly to failure to enact design legislation.

In the 1930's attempts were made to stop design piracy by industry self-regulation through the National Recovery Act (NRA) Codes, and later through the formation of "originators' guilds" and attempted boycotts. While many of these efforts were initially successful, gradually the activities of the guilds were struck down by the courts. The Supreme Court essentially ended the enforcement powers of the guilds when it held in Federal Trade Commission v. Fashion Originators Guild of America,8/ that the Commission's cease and desist order against the Guild was proper.

In the mid-1950's, efforts to draft acceptable design legislation started anew. Sponsoring the effort was the Coordinating Committee of the National Council of Patent Law Associations. The Committee had been formed to serve as a vehicle for expression of views by the patent bar on revision of the Patent Act. Revision of the patent law was accomplished in 1952, without changing the design patent provisions. The Committee ceased to function actively until it was revived in 1954 under Chairman Giles Rich to coordinate the various efforts to draft an acceptable design proposal.9/

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8. 312 U.S. 457 (1941).

9. For a short discussion of the origins of the efforts of the Coordinating Committee, see, G. Rich, "Report of the Coordinating Committee on Design Protection," 1957 Am. Pat. Law Assoc. Bull. p. 15-20 (1957).

The work of the Coordinating Committee culminated in the introduction of the Willis bill in 1957.10/

Three years before the Willis bill, the Supreme Court rendered a landmark copyright decision. In Mazer v. Stein,11/ the Court held that a work of art (a statuette of a female Balinese dancer) did not lose its right to copyright protection when incorporated in a useful article (in this case, the base of a lamp) and reproduced in a substantial number of copies. As part of its rationale, the Court accorded significant weight to the Copyright Office's 1948 regulation governing copyright registration of works of art.

While the Copyright Office had registered the Balinese dancer statuette, had filed an amicus brief justifying copyright in the statuette, and had been upheld by the Court, many proponents of design protection interpreted the Mazer decision as opening the door of the copyright law to an even broader class of applied designs -- those where function and aesthetic appearance tend to merge. The Copyright Office did decide to register claims in designs on textile fabrics -- thus satisfying one of the major industries clamoring for design protection -- but then issued clarifying regulations in 1956 12/ and 1959 13/ establishing the "separability" test as the dividing line between copyrightable and uncopyrightable designs of useful articles.14/ The Mazer case has thus come to stand for the

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10. H.R. 8873, 85th Cong., 1st Sess. (1957) (hereafter "1957 Design Hearings").

11. 347 U.S. 201 (1954).

12. 37 C.F.R. §202.10(c) (August 11, 1956).

13. 37 C.F.R. §202.10(c) (June 10, 1959).

14. The "separability" test was codified in the copyright statute in 1978 in the definition of "pictorial, graphic, and sculptural works." 17

principle that copyright can be claimed in artistic features that are capable of a separate and independent existence apart from the overall shape of a useful article. This test excludes from copyright protection most designs of useful articles.

Although the design proposal was first introduced in the House in 1957, it received its greatest support in the Senate. In 1960, hearings were held before a Senate Subcommittee on two versions of the bill, the O'Mahoney bill, and the Talmadge bill.15/ Under the O'Mahoney bill, copyright protection in a work of art would have been withdrawn once the design was embodied in a useful article.16/ Under the Talmadge bill, a designer had a choice between copyright or design protection where the applied design could qualify as a "work of art" under the Mazer principle.17/

Ultimately, the conflict between the O'Mahoney bill and the Talmadge bill regarding the relationship between copyright and design protection was largely decided in favor of the Talmadge approach. During the hearing conducted in 1960, copyright proprietors such as Walt Disney strongly endorsed the continuation of copyright protection in designs which qualified under the Mazer principle.18/ A year later, a compromise bill

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U.S.C. §101. Refusals to register useful articles have been upheld in Norris Industries, Inc. v. International Telephone and Telegraph Corp. and Ladd, 696 F.2d 918 (11th Cir.) (automobile wheel cover) and in Esquire, Inc. v. Ringer, 591 F.2d 796 (D.C. Cir. 1978) (outdoor lighting fixture).

15. Hearings Before the Subcommittee on Patents, Trademarks, and Copyrights of the Committee on the Judiciary, U.S. Senate, on S. 2075 and S. 2852, 86th Cong., 2d Sess. (1960).

16. S. 2075, 86th Cong., 1st Sess. (1959).

17. S. 2852, 86th Cong., 2d Sess. (1960).

18. 1957 Design Hearings, testimony and written submissions of Mr. Arnell,

was introduced in the 87th Congress.19/ Under the modified version, a copyright owner of a work of art embodied in a useful article was allowed to retain copyright protection if he or she chose not to secure protection under the Design Protection Act.20/ This modified bill succeeded in passing the Senate in the 87th,21/ 88th,22/ and 89th Congresses.23/

On December 10, 1969, Senate proponents of design protection added the Design Protection Act to the copyright revision bill, and reported it as an additional title of the revision bill.24/ In this form it was introduced in the 92nd and 93rd Congresses. The Senate passed both titles of the copyright revision bill in 1975.25/

In 1975, the House Subcommittee also considered copyright and design protection in a series of hearings. One of the hearings was expressly devoted to design protection, especially typeface design protection.26/ Ultimately, the House subcommittee concluded that design protection should be considered separate from copyright revision, and deleted the

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at 27-46.

19. S. 1884, 87th Cong., 1st Sess. (1961).

20. Sen. Rep. No. 1725, to accompany S. 1884, 87th Cong., 2d Sess. p. 15 (1962).

21. S. 1884, 87th Cong., 2d Sess. (1962).

22. S. 776, 88th Cong., 1st Sess. (1963).

23. S. 1237, 89th Cong., 1st Sess. (1965).

24. S. 543, 91st Cong., 1st Sess. (Committee Print) (December 10, 1969).

25. S. 22, 94th Cong., 1st Sess. (1975); S. Rep. No. 94-473, 94th Cong., 1st Sess. (1975).

26. Hearing Before the Subcommittee on Courts, Civil Liberties, and the Administration of Justice, of the Committee on the Judiciary, House of Representatives, 94th Cong., 1st Sess. On H.R. 2223, at 991-1238 (July 15, 1975).

Design Protection Act from the copyright revision bill.27/ The copyright revision bill, without design protection, then passed both houses of Congress in October 1976 and became law in 1978.

S. 791 manifests a renewed interest in design protection, fostered in large part by concerns over competitiveness and international trade. The bill differs from the design proposals which passed the Senate in the 1960's and 1974 in a few respects. The previous design proposals required an election between copyright and design protection. S. 791 allows copyright and design protection to subsist simultaneously if the design of a useful article meets the criteria of both the copyright law and the design protection act. The term of protection under S. 791 is 10 years, rather than five years renewable for an additional five years. S. 791 adds language clarifying that typeface designs are protectable under the act. S. 791 deletes the reference to "ornamental" in several provisions of the bill. Infringement disputes can be settled by arbitration. Minor modifications have been made in section 1002 (regarding designs not subject to protection), section 1006 (concerning the design notice), section 1008 (regarding infringement), and section 1012 (concerning examination of the application). S. 791 designates the Register of Copyrights as the Administrator, rather than leaving the selection to the President.

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27. H.R. Rep. No. 94-1476, 94th Cong., 2d Sess. p. 50 (1976).

III. ARGUMENTS FOR AND AGAINST DESIGN LEGISLATION

A. Arguments in Favor of Design Legislation

1. Designers deserve protection for their creativity.

Through patent and copyright laws, the United States has long rewarded creators for their intellectual output as an incentive to create or invent for the benefit of the public. Designers of attractive but non-inventive functional articles almost alone have been denied effective legal protection.

Legal protection for designs would produce economic benefits for designers in the form of increased demand for their work and a more adequate reward for a good design.

2. Competitiveness of American products would be enhanced by design protection.

Uncompensated copying causes financial loss to the manufacturer of original product designs. Foreign and domestic competitors can undersell the original manufacturer because copyists save on designing expenses, copy only popular designs and avoid the investment risks of the originator, and frequently use inferior workmanship and materials. Copying floods the market with the same design and drastically reduces the life of the design. American manufacturers suffer from copying at the hands of foreigners in the American market, but we are not able to retaliate by copying foreign designs in foreign markets because most countries have better design protection than that provided by United States patent, copyright, and unfair competition laws.

The overall effect of design piracy is to discourage not only creative designing but also higher standards of workmanship and quality. The low standards of the copyist must be met in order to compete.

3. Design piracy harms consumers.

Without adequate design protection, manufacturers have little incentive to market original designs. Also, the copyist, instead of originating designs and thus adding to consumer choice, copies existing popular designs. The piracy mentality leads to the creation of fewer designs, which limits consumer choice and deprives consumers of the opportunity to make original selections in furniture, appliances, and the whole range of consumer products.

Design protection would not raise prices for desirable products since design costs are only one element of product pricing, and the design cost can be recouped through larger sales once the threat of piracy is eliminated. A manufacturer of original products need not price the popular item higher in hopes of making a quick profit during the short period of lead time before copying cuts profits. The manufacturer can anticipate needs more reliably and thus order supplies and estimate production schedules more efficiently. Competition will force manufacturers to price even original products reasonably.

4. Present design laws are inadequate.

Design patent protection is too difficult to obtain (novelty standard must be met); too late (patenting takes 2-3 years and exceeds the life expectancy of many seasonal designs); and too expensive (high filing fees, maintenance fees, and attorney fees). Even when design patents are granted, 70 percent of those challenged are held invalid by the courts.

Copyright protection is available only for a limited number of applied designs that contain separate artistic features, independent of the overall shape of the useful article.

State unfair competition laws are also inadequate to prevent design piracy, especially since the Supreme Court in Sears, Roebuck & Co. v. Stiffel Company,28/ held that "because of the federal patent laws a State may not, when the article is unpatented and uncopyrighted, prohibit the copying of the article itself or award damages for such copying."

5. Other countries give their manufacturers effective design protection.

All major industrialized countries, except the United States, have effective industrial design protection systems and recognize the importance of design protection for their economies. American companies are subject to design piracy and underselling in our market, while other industrialized countries protect their domestic industries from such piratical practices. This imbalance in protection against design piracy makes it doubly difficult for American companies to meet foreign competition. We have the people, resources, and skills to innovate successfully in competition with foreign manufacturers, but our inadequate design laws place us at a disadvantage.

B. Arguments Against Design Legislation

1. Existing design protection is adequate.

The United States already affords legal protection to those original designs deserving of protection. The Patent and Trademark Office issues 3000 design patents annually. The Copyright Office registers

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28. 376 U.S. 225, 232-233 (1964).

7,000-8,000 applied designs annually. Other designs are protected by operation of the trademark laws or unfair competition laws. Non-functional features of bottles and product dress or packaging have received trademark or unfair competition protection when they identify the source of the goods (i.e. acquire "secondary meaning").

2. American innovation and creativity thrive under existing laws.

The United States is a consumer's paradise. No other country offers consumers the range, variety, and selection of consumer goods as that available in the United States. American ingenuity and creativity thrive under our existing intellectual property laws balanced by opportunities to compete through imitation of unprotected designs. For 70 years, a few groups have agitated for design legislation on the ground that added incentives to create innovative designs are required. During this time, the American economy has flourished and has out-performed the economies of other countries.

3. Additional design protection will injure competition among domestic industries.

The United States is one of the few remaining countries to operate a reasonably free market economy. Our economy thrives on competition among domestic industries. The ability to copy or imitate design ideas and innovations that fall short of patent protection is essential to competition. Imitation is the lifeblood of competition. Additional design legislation will lead to greater concentration of monopoly power. It will give large manufacturers a major weapon to stifle competition and destroy smaller companies. The last time the Department of Justice testified on design legislation, it opposed the bill on the ground design legislation

"would create a new monopoly which has not been justified by a showing that its benefits will outweigh the disadvantages of removing such designs from free public use."29/

Unfair and predatory foreign competition should be curtailed through trade negotiations and import restrictions or tariffs rather than through extension of new monopoly power that affects primarily other American manufacturers, distributors, retailers, and consumers.

4. Design legislation will increase the price of virtually all consumer goods.

New legal protection for designs means less competition from other manufacturers and will inevitably lead to higher prices, both to cover increased design costs and to obtain greater profits. Legal protection gives companies, especially large companies, the monopoly power to increase prices. The price increases will vary from industry to industry depending upon the economic strength of existing competition and the nature of the consumer product, but even in competitive areas there will be a tendency to increase prices since there will be less competition.

Insurance companies have testified about the anti-competitive effects of design protection for automobile "crash parts." They assert that literally hundreds of millions of dollars in automobile repair costs are at stake if the design bill does not exclude the "crash parts" industry. This is only one of the American industries impacted by design legislation. The bill impacts virtually every American manufacturing industry; even book and periodical publishers are affected because the bill specifically protects typeface design.

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29. H. REP. 94-1476, 94th Cong., 2d Sess. 50 (1976).

5. Only a limited range of design variation is possible in objects of a given functional type.

Design protection must be carefully circumscribed because it potentially affects all man-made articles of use and because design choices are in fact severely limited by functional and mass production considerations. The marketplace also often dictates that, to be salable, the product must conform to a prevailing style. The absence of substantial design variation makes it very difficult for the courts to determine fairly the fact of infringement.30/ Additional design legislation carries with it the dangerous potential for overbroad legal protection of ordinary objects to the detriment of competition, consumers, and the whole economy.

For example, typeface designs must be functional and legible under high-speed printing conditions. The range of design choice is necessarily very limited. Nevertheless, S. 791 would protect the design for 10 years, and the public distribution of Shakespeare's plays and public documents printed by private publishers could be enjoined because they were printed with a protected typeface.

IV. THE FOREIGN EXPERIENCE

In his opening statement at the hearing on S. 791, Senator DeConcini eloquently pointed out that most of our industrialized trading partners register and protect more industrial designs than we do in the United States. The Copyright Office agrees that Congress should examine the foreign experience as it once again seriously considers design legislation. Unfortunately, comparative analysis of foreign laws is difficult for a number of reasons. The various foreign industrial design laws tend to

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30. Note, "Protection for the Artistic Aspects of Articles of Utility," 72 Harv. L. Rev. 1520, 1532-1534 (1959).

vary more than laws concerning other intellectual property, such as patents or trademarks.31/ National design laws have evaded the harmonization that has occurred in patent and copyright law through the Paris Industrial Property Convention and the Berne and Universal Copyright Conventions. Many nations use a design registration system, but the registrability of a design is governed by internal administrative practices not readily apparent from a reading of the statute.

Americans frequently look to the British example, with our common heritage and language. The Registered Designs Act of 1949 is generally cited as the basic British law on industrial designs. However, the legal situation in Great Britain is exceedingly confused and unique due to the fact that Great Britain protects some useful articles under its general copyright law. Cases in Great Britain tend to conflict, and even the British seem to regard the state of their law as an anomaly. The House of Lords held in 1986 that copyright in useful articles does not prevent copying of repair or replacement parts for automobiles.32/ As a result of this uncertainty, for purposes of evaluating an appropriate American response towards industrial designs, the British experience is not much help, although the British Leyland litigation illustrates the problems associated with broad design protection.

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31. On the issue of establishing a European design registry, German experts made the following statement: "[T]he German National Group considers the creation of a regional system of protection, in particular a convention on a European design, to be desirable. However, especially the determination of the protectability of designs and models is so different in individual countries that a harmonization would meet with greater difficulties than in the field of patent and trademark law." AIPPI, Executive Committee Meeting in Rio de Janeiro (May 13 to 19, 1985) p. 157 (1985).

32. British Leyland Motor Corp. v. Armstrong Patents Co., [1986] 1 A.C. 577.

In continental Europe a number of different systems exist side by side. France, despite having a sui generis design statute on the books, apparently relies more on its copyright law and protects artistic industrial designs without formalities. This policy is often characterized as the "unity of art" doctrine. The level of artistry and creativity required apparently exceeds American copyright standards.

Italy requires industrial products to qualify for protection under its design statute, which includes a novelty test. In practice, however, the novelty standards are not as strict as those applied by the United States Patent and Trademark Office.33/

West Germany extends copyright protection to certain works of applied art having sufficient aesthetic content.34/ Useful articles failing to meet the copyright test must qualify for protection under the German design law in order to receive any protection.

While the Japanese law35/ is largely general in nature, section ..) limits the scope of coverage by setting the following criterion:

> Where a design could easily have been created, prior to the filing of the design application, by a person with ordinary skill in the art to which the design pertains, on the basis of a shape, pattern or color or a combination thereof widely known in Japan (other than a design referred to in any

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33. In Italy, novelty is strictly applied only with regard to prior divulgation. Designs differing only somewhat from the prior art may nevertheless qualify for protection under Italian law. See, J.H. Reichman, "Design Protection in Domestic and Foreign Copyright Law: From the Berne Revision of 1948 to the Copyright Act of 1976," Duke L.J. 1143, 1214 (1983).

34. J.H. Reichman, "Design Protection After the Copyright Act of 1976: A Comparative View of the Emerging Interim Models," 31 J.Copr.Soc'y. 267, 337 (1983).

35. For an English language translation of the Japanese law see, 13 Industrial Property 443 (1974).

> of the paragraphs of the preceding subsection), a design registration shall not be effected for such a design notwithstanding the preceding subsection.

Japanese experts have indicated that a certain "quality of art" is necessary in order to receive protection under Japanese law.36/ Moreover, some items protected under Japanese design law, such as stuffed toy animals and dolls, receive full copyright protection in the United States. Therefore, of the 30,000 designs registered annually in Japan, many cover items receiving copyright protection in the United States.

In examining the Japanese standards for design protection, it appears clear that they are lower than the design patent standards of the United States Patent and Trademark Office. However, they appear to be significantly higher than mere "originality" and "distinctness." A protectable design must represent an advancement in the designer's art. It would appear that, by and large, mechanical components of industrial products would be outside the Japanese design law.

V. OBSERVATIONS OF THE COPYRIGHT OFFICE

A. General Comments

Beginning in 1913, Registers of Copyrights have participated in efforts to secure effective protection for deserving industrial designs. In the early 1950's, the Copyright Office was particularly active and, principally through Register Arthur Fisher and Barbara Ringer, Register of Copyrights from 1973-1980, assisted in drafting the 1957 Willis bill, the forerunner of S. 791.

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36. AIPPI, Executive Committee Meeting in Rio de Janeiro (May 13 to 19, 1985) p. 224 (1985).

It is clear that an attractive design of an industrial product is often the single most important factor in the product's marketability. A few industrial designs, such as fabric designs, have been folded into the copyright law. Most industrial designs, however, remain outside any regime of protection. American manufacturers are arguably at some international disadvantage by having no effective domestic protection for their creative, innovative designs. Drafting balanced design legislation is more difficult, however, than drafting either copyright or patent legislation.

The central problem in defining the scope of design legislation is the limited range of variations possible for useful articles. An article's design must not prevent it from performing the useful function for which it is intended. The design must be suitable for mass production. Consumer expectations often require an item to conform to a prevailing style. These realities raise major difficulties in distinguishing designs that merit protection from useful articles undeserving of an exclusive right over manufacture.

For creative and artistic works of the kind protected by traditional copyright law, there are few, if any, negative economic consequences for extending protection to works with only small amounts of originality. The Copyright Office registers nearly 600,000 claims to copyright a year. Many of the "works" registered are of relatively low artistic quality. This is of no economic consequence because we can allow the marketplace to separate the worthy from the unworthy.

The economics concerning the marketing of useful articles is entirely different. The value of a useful article is partly or primarily determined by the useful function the product performs. Therefore, demand for the article is often separate from the design of the article. The

consequences of extending exclusive protection to brake drums, steering wheels, and springs will be far reaching. An overprotective design bill could lead to a high cost, less competitive domestic market.

Internationally, most of our major trading partners have a more effective design statute than we do. Virtually all the statutes apply a novelty standard rather than originality. In practice, the novelty standard appears lower than the inventiveness standard applied by the United States Patent and Trademark Office and our courts under the design patent law. However, the foreign statutes appear to require some discernable improvement over the prior art in order to qualify for protection.

As is often the case, Congress has a difficult choice to make between the arguments of the proponents and opponents of design legislation. If the Subcommittee concludes that more design protection is warranted, I note some serious questions concerning the scope of protection fostered by S. 791.

B. Suggestions for Improving the Bill

1. Subject matter standards.

The bill as proposed seems to have made a significant modification of the Willis bill by eliminating the reference to "ornamental" in specifying subject matter coverage. The effect of this change is to broaden subject matter coverage to all "original designs" which are intended to be "attractive" or "distinct."

In testimony on S. 791, it was apparent that many manufacturers view S. 791 as covering purely mechanical parts in which "attractiveness" or aesthetics is no factor in the marketability of the product. Indeed, some of the parts mentioned, such as fuel injector nozzles, are internal

engine parts never seen by the purchaser of the vehicle. Unfortunately, as presently drafted, S. 791 can support an expansive interpretation. Clearly all parts from original equipment manufacturers (OEM's) will be "original" in that the manufacturer designed the parts. Most will be "distinct" in that they can be distinguished from the parts of other OEM's. Broadly construed, S. 791 could extend a 10 year exclusive right to an OEM's entire inventory of spare parts. Is this the intent of S. 791? If it is, then S. 791 will have a major impact on the way business is conducted in the United States. Potentially, millions of purely functional pistons and springs could be placed off-limits to competitive pricing. The Copyright Office urges Congress to make a thorough economic analysis of the impact of design protection having such a broad sweep.

In the hearings, the argument was often made that design protection would prevent the marketing of foreign manufactured spare parts, perhaps of inferior quality in workmanship and materials. The Copyright Office believes that quality of spare parts is a legitimate congressional concern. Clearly, parts purchased by the American consumer should perform the function for which they were purchased. The Copyright Office suggests, however, that product reliability concerns could be addressed in consumer products legislation rather than design legislation. Design protection gives a manufacturer a right to exclude <u>all</u> competing copies -- superior parts as well as inferior ones. Moreover, competing American firms are excluded from the field as well as foreign firms. And without the pressures of competition, the quality of the parts made by the original manufacturer could start to deteriorate. So design protection would be best evaluated on its own merits of advancing the public good by fostering the creation of new and valuable industrial designs rather than as a

trade-inspired effort to protect a specific industry. This is especially important in light of the growing percentage of foreign-made automobiles in the United States. We could be freezing U.S. manufacturers out of the potentially profitable parts market for this huge fleet of automobiles. As the dollar falls in relation to foreign currencies, we could once again be extremely competitive in this market.

Most design bills considered by past congresses focused on aesthetically pleasing designs; the term "ornamental" was used in the bills until 1985.37/ Without some reference to ornamentality, the concept of "distinctness" could be stretched to cover mechanical components never seen by the consumer. The exclusionary language of section 1002 regarding "staple or commonplace" design features could be explained in greater detail, in the statute or the legislative reports, to make it clear that the bill would exclude a significant number of mechanical designs. For reasons discussed below, the exclusion of designs "dictated solely by a utilitarian function" is inadequate.

The Copyright Office suggests one or all of the following solutions:

a) restore the concept of ornamentality by adding that term to section 1001(a) and at appropriate places elsewhere in the text. (Incidentally, vestigial references still appear in sections 1027 and 1028.)

b) return to the original subject matter statement of the 1957 Willis bill by substituting the following for section 1001(a):

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37. See, for example, the 1983 bill, H.R. 2985, 98th Cong., 1st Sess. (1983) (Mr. Moorhead).

"(a) The author of an original ornamental design of a useful article, or his legal representatives or assigns, may secure the protection provided by this Act upon complying with and subject to the provisions hereof.

An ornamental design of a useful article, hereinafter referred to as "design", is a design of the article that includes features of shape, pattern, configuration, or ornamentation intended to give the article an attractive, artistic, or distinctive appearance and not merely utilitarian or functional in purpose."

c) in any report of the bill, include congressional guidelines concerning the meaning of "attractive or distinct;" indicate that useful articles not designed to be aesthetically pleasing are excluded from the subject matter of the new design law, and that the administrative agency and courts are expected to develop objective standards of what is "attractive or distinct" by reference to design aesthetics.

2. Dictated solely by function.

Section 1002(a)(4) excludes from protection any design that is "dictated solely by a utilitarian function of the article that embodies it."

The Copyright Office doubts that this language achieves the apparent purpose of excluding purely functional designs. In the experience of the Copyright Office when registering applied designs, virtually no

designs are dictated solely by a utilitarian function. The design features may be overwhelmingly or solely responsive to function but are seldom absolutely dictated by function.

The Copyright Office suggests the following substitute language in Sec. 1002(a)(4) for excluding underserving functional designs: "developed solely to obtain a technical result."

3. Dual copyright and chapter 10 design protection.

S. 791 allows copyright and design protection to subsist in the same features of designs meeting the standards of both laws. Unlike some of the past design bills, no election between copyright and registered design protection is required. The Copyright Office questions the justification for dual protection. The public gets the benefit of only one design, but the designer gets two cracks at protection in the courts. The Congress may want to require an election of protection like the 1981 bill:38/ once design registration is made, copyright protection ends with respect to embodiment of the design in useful articles.

4. Impact on copyright law.

To ensure a clear demarcation between copyright protection and chapter 10 design protection, the Copyright Office suggests that the legislative reports accompanying the bill confirm the intention not to affect in any way the application of the "separability" test in determining copyrightable subject matter. Such a commentary would be useful in connection with the sectional analysis of section 1027.

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38. H.R. 20, 97th Cong., 1st Sess. (1981).

5. Meaning of "part of a useful article."

Testimony at the hearing on S. 791 suggested that some proponents interpret the bill as extending protection to a "part of a useful article" where the overall article shape is protected, even though the component machine part (e.g., a sparkplug or an exhaust pipe) may not itself satisfy the originality and attractive-distinct appearance standards. The Copyright Office suggests that confusion has arisen regarding the basic purpose of design legislation. Past design bills and most foreign industrial design laws protect the external, visual appearance of a utilitarian article and not its internal, purely functional, component parts. For example, design laws would generally protect the external, partly aesthetic features of an automobile body, including fenders, bumpers, and door shapes, but would not protect shock absorbers, carburetors, and exhaust pipes.

If this analysis comports with congressional intent, the Copyright Office suggests that the commentary in the legislative reports on the definition of "useful article" make clear that Congress has no intention to protect internal, purely functional component parts of a larger useful article, even if external design features are protected.

6. Costs of cancellation proceedings.

The design bill directs the Register of Copyrights to establish procedures for cancellation of challenged designs. Although the Copyright Office in rare instances will cancel a copyright registration, the procedure is informal and requires written notice and an opportunity to be heard rather than a formal hearing. Design registration cancellation requires new formal procedures "under which the opposing parties may appear and be

heard in support of their arguments."39/ Section 1012(c) of the bill. Formal hearings entail administrative expenses, yet the bill specifically allows the Copyright Office to charge only $15 for filing each application for cancellation of a registration. Paragraph (b) of section 1015 does give authority to establish charges "for materials or services furnished by the Office, not specified in this section which are reasonably related to the cost thereof." The Copyright Office requests clarification that this authority is broad enough to cover charges for the reasonable costs of cancellation proceedings.

7. Office of the Administrator of the design law.

Section 1030 designates the Administrator of chapter 10 design protection as the Register of Copyrights and the Office of the Administrator as the Library of Congress. If Congress continues to entrust this administrative responsibility to the Register of Copyrights, the Office of the Administrator should be described as the "Copyright Office of the Library of Congress."

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39. The Copyright Office is not aware that any doubts have been expressed about the constitutionality of giving the Office, which is located in the legislative branch, the authority to conduct design interference proceedings. In the event such concerns arise, the Office notes that this type of proceeding would be quasi-judicial rather than executive in nature. The Office would neither enforce the law nor issue administrative orders. The Copyright Office has long exercised the authority to refuse to register copyright claims. In Eltra Corp. v. Ringer, 579 F.2d 198 (4th Cir. 1978) the court upheld the refusal to register a typeface design and decided that the "Supreme Court has properly assumed over the decades since 1909 that the Copyright Office is an executive office, operating under the direction of an Officer of the United States and as such operating in conformity with the Appointments Clause."

Finally, I look forward to working further with the Senate Subcommittee on this important bill, and will be pleased to assist you in any way you request.

THE INDUSTRIAL INNOVATION AND TECHNOLOGY ACT OF 1987 (S 791)

COMMENTS ON PROPOSED AMENDMENTS

BY THE

MOTOR & EQUIPMENT MANUFACTUERS ASSOCIATION (MEMA)

The Motor & Equipment Manufactuers Association (MEMA) represents more than 750 U.S. companies which manufacture automotive and heavy duty parts, components, accessories and related items, used both as original equipment and for replacement purposes (or the "aftermarket"). MEMA and its members are seriously concerned about the potentially broad sweep of the Industrial Innovation and Technology Act of 1987 (S.791). MEMA and its members are concerned that, unless amended, the legislation could result in protection for design of automobiles and other motor vehicle parts by original equipment manufacturers which would in essence preclude the manufacture and sale of replacement parts. These concerns were reiterated by Senator Hatch in his comments on S.791 on page S. 3535 of the Congressional Record of March 19. 1987.

While the views represented in this statement reflect concerns of manufacturers of motor vehicle parts, MEMA feels that our interpretation of this legislation, as currently written, could impact any industry comprised of a manufactured product made from a variety of components, and, during its useful life, requires repair services and replacement of component parts.

MEMA strongly believes that, if any legislation is to be passed to protect industrial designs, it should be clarified that protection of such designs shall not extend to any design or portion of any design which would preclude the substitution of one part for another. Unless the legislation is so amended,

original equipment manufacturers could develop designs which would in essence preclude the substitution of parts.

MEMA's proposed amendment to Section 1002(a)(4) would resolve this problem by making it clear that protection will not be given to a design or part of a design that allows only one part to fit or be replaced by a replacement part. MEMA feels this amendment would not inhibit legitimate development and would provide protection of "original" design features that would not preclude the use of replacement parts as their replacement.

MEMA's second concern is that the definition of "original" is too vague. Thus, MEMA is proposing amendments to Section 1001(b)(3) and 1002(a)(2) which it believes are necessary to make certain that only truly original designs are protected under the legislation. Designs would not be considered "original" if they substantially resemble an existing design.

Without these amendments, MEMA has strong reservations about the legislation. There are already protections for designs in the patent and copyright laws, and trade appearance (trade dress) is protectable, in certain circumstances, under the Lanham Trademark Act, as well as state law.

Nothing in the Patent and Copyright Clause of the Constitution, or its construction, has been found to support the protection of what would not be considered unpatentable and uncopyrightable material.

Protection of product appearance as intellectual property -- particularly where it includes protection of the useful as well non-useful aspects of a design -- runs afoul of

the policy which allows useful items, arguably in the public domain, to be used by all. Protection of product appearance should not be used as a guise for eliminating legitimate competition.

S.791, by providing blanket protection for both the useful and non-useful aspects of a design raises these concerns for MEMA and its members. The amendments proposed by MEMA, and attached to this statement, strike a balance between legitimate protection of product appearance and the right of all to legitimately compete.

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Proposed Amendments to S.791,
"Industrial Innovation and
Technology Act of 1987"

Section 1001(b)(3)

A design is "original" if it is the independent creation of an author who did not copy it from another source.

Section 1002(a) Protection under this chapter shall not be available for a design that is -

(2) substantially similar to another design or is staple or commonplace, such as a standard geometric figure, familiar symbol, emblem, motif or other shape, pattern or configuration which has become standard, common, prevalent or ordinary.

(4) dictated by a utilitarian function of the article that embodies it, including any design or portion of any design dictated by the mechanical interface necessary to permit the physical substitution of an article not otherwise copied from a protected design.

HTS High Technology Solutions
PO Box 1436 Poughkeepsie NY 12603 914 473 5300

March 20, 1987

The Honorable Dennis DeConcini
Chairman, Patents, Copyrights & Trademarks Subcommittee
Committee on the Judiciary
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman,

We request that these comments be included in the record of the March 26th meeting on the Industrial Design Bill. It is our belief that the current state of the law in the United States regarding the protection of industrial innovation is completely inadequate. Whether with regard to replacement parts for heavy equipment and automobiles, or for typefaces, the law does not encourage innovation or protect designers and companies from piracy either at home or abroad. Considering the vast gulf between the relatively small number of patents granted in the United States per capita and the larger number granted in countries such as Japan and Korea with a much smaller population, it is clear that the patent process is both too cumbersome and too expensive to provide proper service and protection. At the same time a design patent does not support designers and companies in the court system. The time has come for the United States to recognize that copyright law must protect industrial design innovation, or the losses to the economy and the position of the United States in the world economy will continue to suffer seriously.

High Technology Solutions is a manufacturer of high-resolution typesetting equipment that specializes in foreign language composition. One of our recent customers was the largest newspaper in China, the People's Daily of Beijing. Our equipment also serves specialized industrial applications such as financial institutions and greeting card companies. HTS currently has under development the most extensive typeface design program in the industry. Our typefaces have been acknowledged by leading industry publications to be notable for their quality and quantity. Our licensing program now includes Allied Linotype, Esselte Letraset, and the International Typeface Corporation, and will soon include most of the large typesetting equipment manufacturers.

For the entire history of our industry there has been no copyright protection for typeface designs. The Copyright Office has refused to consider typefaces as subject to protection due to

their policy against granting copyright to industrial design of any kind. The courts have not been able to give our industry relief (Eltra v. Ringer (1978) 579-F.2d 294) because they look for guidance in their decision to Copyright Office precedent. Because of this policy, companies and designers frequently find the designs they have developed--often at great expense and over significant periods of time--are stolen by competitors who capitalize on the popularity and advertising that has been done to create a demand for the typeface.

The design of innovative typefaces is an art that requires skill, taste, experience, knowledge, and above all, creativity. The fact that typefaces are integrally linked to the industrial application of typesetting equipment in no way negates their innate value as works of art. Both France and Germany have recognized the value of typefaces to their economy and have passed laws to protect these important works of art. We feel that the time has come for the United States to recognize with this legislation the value and importance of this art form.

Typeface sales represent a very significant portion of the multi-million dollar typesetting equipment industry. After the initial sale of a typesetting system, typefaces, software updates, and service contracts are the only ways the manufacturer can continue to derive a profit from their customers. Of these, typefaces are without a doubt the most lucrative. Customers must update their typeface libraries on a regular basis to keep up with new typeface releases. These purchases continue as long as the customer keeps the equipment operational.

Typefaces are important not only to the typesetting industry, but now to the growing market of desktop publishing as well. Designers of typefaces find that now instead of having only the formal publishing and advertising industry as a customer base, every owner of a personal computer is a potential customer. With the influx of PC's from abroad, and the high degree of competition that they are giving American manufacturers, now more than ever we need protection from piracy.

We are asking you to give us the protection our creative and innovative work deserves. By simply allowing typefaces to be included in this legislation you will overcome decades of legal prejudice and pave the way for creative people to expect and receive full compensation for their work. Without this protection, designers and companies will continue to face piracy and income loss, as well as the ultimate discouragement to

innovation. Congressman Hamilton Fish (R-NY) is a co-sponsor of this legislation in the House, and on February 25 he wrote in response to our letter, "I certainly concur that typefaces should be protected by this legislation." The Industrial Design Coalition has worked with us to develop language suitable for inclusion in this bill; a copy of which is enclosed for your reference.

I would be pleased to come and speak with you personally or to the subcommittee in detail about this matter. We believe that Congress finally has the chance to redress longstanding inequities and support our industry. We will do whatever is necessary to bring this change about.

Sincerely,

Cynthia Hollandsworth

Cynthia J. Hollandsworth
Director, Typeface Development

Enclosures: Letter from Congressman Hamilton Fish
Suggested language for designation of typefaces as useful articles

HAMILTON FISH, JR.
21ST DISTRICT, NEW YORK

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Congress of the United States
House of Representatives
Washington, DC 20515

JUDICIARY COMMITTEE
RANKING MINORITY MEMBER

SUBCOMMITTEE ON MONOPOLIES
AND COMMERCIAL LAW
RANKING MINORITY MEMBER

SUBCOMMITTEE ON IMMIGRATION,
REFUGEES AND INTERNATIONAL LAW

SELECT COMMITTEE
ON CHILDREN, YOUTH,
AND FAMILIES

VICE CHAIRMAN
NEW YORK STATE REPUBLICAN
CONGRESSIONAL DELEGATION

CHAIRMAN
BOARD OF VISITORS
U.S. MILITARY ACADEMY

February 25, 1987

Ms. Cynthia J. Hollandsworth
Director of Typeface Development
High Technology Solutions
P.O. Box 3426
Poughkeepsie, New York 12603

Dear Ms. Hollandsworth:

Thank you for your letter of February 10, urging my cosponsorship of legislation (H.R. 379) which would provide patent-type protection to industrial designs.

On February 19, Congressman Moorhead and I joined in introducing the industrial design protection bill as H.R. 1179. Our bill is identical to title I of H.R. 379. The reason for a separate bill was that title II of H.R. 379, as originally introduced, dealt with the burden of proof in International Trade Commission proceedings and was not directly related to the industrial design protection issue.

As my cosponsorship would indicate, I am fully committed to the enactment of industrial design protection legislation in the 100th Congress. In fact, I am currently involved in efforts to try to include such a provision in the trade competitiveness legislation that will be considered in the House of Representatives, perhaps as early as April. The amendatory language you suggest has been referred to my counsel on the Judiciary Committee, and I certainly concur that typeface designs should be protected by this legislation -- the only question may be the appropriate type of statutory language.

Again, thank you very much for taking the time to write me on this important issue. I look forward to working with you in the future.

Sincerely,

Hamilton Fish Jr.

HAMILTON FISH, JR.
Member of Congress

HF:acs

Typeface Amendment to HR379 (as introduced 1/6/87
by Cong. Carlos Moorhead)

1. Page 3 - Section 1001.

At line 16, following "source" add two new paragraphs to read as follows:

"(4) Typeface consists of a set of letters, numbers, or other symbolic characters, whose forms are related by repeating design elements consistently applied in a notational system."

"(5) Typeface is a 'design' subject to protection under this Chapter when the repeating design elements in the combinations employed in a notational system are (i) original, (ii) attractive or distinct, and (iii) incorporated in a 'useful article' whose normal use is in composing text or other cognizable combination of characters."

Comments: The design of innovative typefaces requires a high degree of creatively and skill. They are important works of industrial design requiring significant creative authorship not unlike the creation of computer data bases.

Today, computer software, and program data bases are copyrightable. However, neither analogue nor digitized typefaces are copyrightable today. Eltra vs. Ringer (1978) 579 F. 2d 294).

In this as well as other aspects of industrial design protection, the United States lags behind other industrialized nations such as France and Germany where innovation and technological development have been recognized as essential to long-term economic growth. Design innovation is an essential component of this growth, and as such is protectable.

Varityper

11 Mt. Pleasant Avenue □ East Hanover, New Jersey 07936 □ (201) 884-6263

W.F. Brine, Jr.
Vice President
Type, Supplies & Accessories

March 20, 1987

The Honorable Dennis DeConcini
Chairman
Patents, Copyrights & Trademarks Subcommittee
Committee on the Judiciary
U. S. Senate
Washington, D.C. 20510

Dear Mr. Chairman:

Re: Industrial Design Protection Bill

We request that the following comments be included in the record of the March 26th meeting on the Industrial Design bill.

As a major employer and tax payer in the State of New Jersey, Varityper strongly supports this legislation. We support it in the hope that it will bring to an end, or at least minimize, the serious economic loss incurred by Varityper (and others similarly situated) in an environment without industrial design protection.

Varityper is one of the world's leading manufacturers of typesetting and composition systems. These machines are complemented by a large and continuously growing library of typefaces. The sale of such typefaces represents an important product offering at the time a machine is sold as well as afterward. In the past, Varityper has been unable to obtain any form of protection, and consequently pirates have ripped off our product and entered the market with virtually an identical product. This predatory practice has cost Varityper millions of dollars of lost revenue and operating income, has injured our domestic typesetting industry, and has resulted in the loss of jobs in the United States work force.

I would like to stress that we are not against competition. Competition is healthy for us and for the American public. But competition that is based on product ripoff without investment in development is unfair. It ultimately costs jobs and will stifle investment.

If you would like to discuss this matter or require further information, please let me know. I encourage you to actively support this legislation.

Sincerely,

W. F. Brine, Jr.

The Company

27 Chestnut Street, Boston, MA 02108 617 227-5528

March 23, 1987

The Honorable Dennis DeConcini
Chairman
Patents, Copyrights, and Trademarks Subcommittee
Committee on the Judiciary
U.S. Senate
Washington, DC 20510

Dear Mr. Chairman:

We request that these comments be included in the record of the 26 March meeting on the Industrial Design bill.

Over the last 25 years I have been responsible for the Typographic Design programs at Linotype and then at Bitstream. During that time I have seen leadership in the design of new typefaces move from Europe to the United States, bringing with it the jobs involved in the design and manufacture of type fonts. Since good type libraries also sell equipment, I have seen a corresponding increase in the manufacture of typesetting equipment, an large-scale industry now centered in the USA.

This position is threatened by unauthorized domestic copies of typefaces sold cheaply. The design and marketing of good new typefaces is skilled, expensive, and demanding work. The investment is put in question when a major part of the rewards go to the cheap copyist.

Lack of protection for good new American type designs also gives a real advantage to foreign competitors, particularly from the Pacific Rim.

We strongly support the whole Industrial Protection bill and particularly the typeface amendment language provided to the Senate Judiciary Committee by Caterpillar on behalf of the typeface industry.

Yours,

Mike Parker

Mike Parker
Director

ASIA Automotive Service Industry Association

John W. Nerlinger, CAE
President

International Headquarters
444 North Michigan Avenue
Chicago, IL 60611-3975
(312) 836-1300

March 24, 1987

The Honorable Dennis DeConcini
Chairman
Subcommittee on Patents, Copyrights
and Trademarks
U.S. Senate
SD - 137 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

Automotive Service Industry Association (ASIA), the organization representing the entire automotive aftermarket industry appreciates this opportunity to present its views on S.791, the "Industrial Innovation and Technology Act of 1987." Specifically, these comments concentrate on those provisions of the bill that pertain to the automotive aftermarket industry.

ASIA is a national trade association comprised of more than 8,500 independent automotive wholesalers (including an auto trim wholesalers division and an auto paint, body supply and equipment wholesalers division), warehouse distributors, heavy duty distributors, AEA distributors, international wholesaler-distributors, manufacturers representatives, manufacturers and remanufacturers of replacement parts, tools, equipment, chemicals, paint, refinishing materials, supplies and accessories.

The manufacture of motor vehicles is a pivotal industry in this country. While production of motor vehicles is dominated by a relatively few firms, the manufacture of the parts used in such production is performed by literally thousands of firms, many of which are classified as small or medium sized. Motor vehicles require continued maintenance and periodic repair and the sector of the industry that provides this care is called the aftermarket.

The fundamental function of the aftermarket industry is to provide the right parts, supplies, tools and equipment to service and repair the nation's 180 million registered vehicles and "off-the-road" equipment at the right time and at the right place. The companies performing this function are for the most part the small and medium sized businesses that make up the economic backbone of our nation's free enterprise system.

The parts and components necessary for the repair and maintenance of these vehicles are primarily produced by independent manufacturers or remanufacturers and supplied through an efficient, yet highly complex distribution network.

The association is dedicated to the preservation of competitiveness in the aftermarket industry and recognizes the importance of initiatives to establish patent and copyright protections that promote such competitiveness. The association respectfully requests that in considering legislation to provide such protection, that the scope of any such legislation not reach beyond the laudatory goals as outlined in your introductory statement printed in the March 19, 1987 Congressional Record.

ASIA is concerned that certain provisions in S. 791 can be utilized to reduce and eventually to eliminate competition in the aftermarket industry by conferring upon the vehicle manufacturers a procedure to legally exclude aftermarket parts.

The bill offers protection to the original design of a useful article. A useful article is defined to be an article which in normal use has an intrinsic utilization function that is not merely to portray the appearance of the article or to convey information. Under such a definition, a motor vehicle can be considered a useful article.

The design which is to be protected consists of those aspects or elements of the article which make up its appearance. This would include aftermarket parts such as fenders, door panels, bumpers, lights, glass, mirrors, etc., since each of these are elements of the article which makes up its appearance. The bill continues on to make all other aftermarket parts also subject to its provisions.

Under the bill, an article which normally is a part of a useful article shall be deemed to be a useful article, and therefore eligible for protection under its provisions. Aftermarket parts normally become part of the motor vehicle and are therefore considered useful articles as defined in the Bill. A vehicle manufacturer could obtain intellectual property protection for the entire vehicle which would include protection of all of its parts thus effectively excluding the aftermarket industry from access to that vehicle for the life of that vehicle.

Under S. 791, as presently written, a vehicle manufacturer claiming design protection could demand that only his original equipment be used in the maintenance and repair of that vehicle over its entire life thus handing to the vehicle manufacturers a total monopoly in the parts industry with a correspondingly devastating anti-competitive impact on this important and viable U.S. industry.

In an analogous situation under the Clean Air Act, warranties mandated by that Act are currently causing major competitive dislocations in the aftermarket industry. The issue of a mandated monopoly is addressed in H.R. 1239, a bill introduced by Representative William Dannemeyer in February of this year that would substantially reduce the anti-competitive impact of the warranties mandated by the Clean Air Act. Yet, the anti-

competitive aspects of those warranties pales in comparison to that which can arise from the provisions of S. 791 which include aftermarket parts as useful articles subject to protection under this proposed law. The warranty in the Clean Air Act is for an inordinately long period of time but the exclusionary aspects of S. 791 would prevail for the entire life of the motor vehicle.

In commenting on the anti-competitive aspects of any legal mechanism which permits the exclusion of the independent aftermarket from access to the motor vehicle, the Department of Justice warned that the inevitable consequence of such a legal mandate would be a substantial increase in concentration in the automotive aftermarket with a loss of the advantages of free and open competition. The Federal Trade Commission pointed out that any system which prohibited the use of parts other than original equipment parts creates serious anti-competitive effects.

The language of S. 791 would effectively bar the use of any parts other than original equipment parts. Extending the protection under this bill to internal and not readily visible components accomplishes such a result. Where given a choice as to original factory parts and the quality parts produced by the independent aftermarket, the public in servicing the maintenance and repair needs of its vehicles, has overwhelmingly chosen the products of the independent aftermarket.

It is respectfully submitted that the interest of free and open competition in the automotive aftermarket is paramount and must be zealously guarded. The impact of the specific provisions of S. 791 that have been referred to in this statement would be catastrophic. The association supports and urges the adoption of amendatory language specifically exempting aftermarket parts from the provisions of S. 791. It is respectfully requested that this letter be made part of the hearing record.

Sincerely,

John W. Nerlinger

John W. Nerlinger
President
Automotive Service Industry
Association

JWN/pjm

ESSELTE LETRASET

American Operations
Division of Esselte Pendaflex Corporation

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MAIL ROOM
MAR 25, 1987
PAT. & TRADEMARK OFF.

March 24, 1987

The Hon. Dennis DeConcini
Chairman
Patents, Copyrights and Trademarks Subcommittee
Committee on the Judiciary
U.S. Senate
Washington, D.C. 20510

Dear Mr. Chairman:

We request that these comments be included in the record of the March 26th meeting on the Industrial Design bill.

At issue with the Proposed Industrial Design legislation is the competitive position we take for the creative producers in the United States. Allowing the appropriation of appearance on a product or intellectual property leads to unfair abuses, similar to copying a name.

In our industry of Typeface Design, we find it is increasingly difficult to encourage the truly talented type designers to practice their creative skills. Too often, designs are copied thus denying the creator any reward for his original idea and work. The creative sources for new ideas and designs should not be allowed to dry up.

The proposed Industrial Design bill, with the proposed typeface amendment, takes an important step in protecting this industry from its talent drain. Additionally, it will mean more jobs for creative designers in the field of Typeface Design.

Sincerely,

Jack Forbes

Jack Forbes
Executive Vice President

JF:slc
cc: Edward Gottschall

International Typeface Corporation
2 HAMMARSKJOLD PLAZA
NEW YORK, NEW YORK 10017
(212) 371-0699

March 24, 1986

The Hon. Dennis DeConcini
Chairman
Patents, Copyrights and
Trademarks Subcommittee
U.S. Senate
Washington, DC 20510

Dear Mr. Chairman:

We request that these comments be included in the record of the March 26th meeting on the Industrial Design bill.

It seems to me that the Industrial Design bill now being considered by your committee would, if it became law, strengthen the competitiveness of companies in the United States verses foreign competition and help safeguard jobs in the United States as well as protect the investment of companies bringing new products to market from the unfair competition of pirates. As you know, the record industry, book publishers and others enjoy such protection and they would suffer greatly without it.

Other industries lacking such protection, and typeface designing and manufacturing is one of them, are presently suffering from unfair competition including that from abroad.

There is plenty of ethical competition in the typeface industry, dozens of companies design and market new typefaces. The design protection would not lessen such competition but would protect ethical operators from those who can cheaply copy designs that were costly for the originator to create, manufacture and market.

In the typeface industry the beneficial effect of such protection would extend beyond the typeface market and be most helpful to the much larger typesetter and laser printer manufacturing operations. More profits for United States companies and many more jobs in the United States are at stake here.

Typeface piracy, as is the case with many other products, is nothing new. But its massive impact is new and is proliferating alarmingly. Copying was made very cheap, very easy, and an overnight operation by the entry of computers and computer driven machinery into the typesetting world.

For these reasons we urge your committee to vote favorably on the bill and, of course, on the inclusion of protection for the design of new typefaces in it.

Thank you for your consideration of this matter.

Sincerely,

Edward Gottschall

Edward Gottschall
Executive Vice President

EG/tt

National Association
of Manufacturers

JERRY J. JASINOWSKI
Executive Vice President
& Chief Economist

March 26, 1987

The Honorable Dennis DeConcini
Chairman, Subcommittee on Patents,
Copyrights and Trademarks
Committee on Judiciary
U.S. Senate
Washington, DC 20510

Dear Chairman DeConcini:

We note with enthusiasm your and Senator Hatch's introduction of S. 791, a bill to amend the copyright law, title 17 of the U.S. Code to provide for protection of industrial designs of useful articles.

NAM policy strongly supports the protection of U.S. intellectual property rights. To quote in part from that policy, "The U.S. has a clear national interest in promoting more effective protection of intellectual property rights both at home and abroad. Unless these rights are adequately protected worldwide, the U.S. will lose whatever long-term competitive benefits it might otherwise have gained from its leadership in technological innovation."

In announcing last month the NAM's 12-point action plan to promote U.S. competitiveness, NAM President Alexander B. Trowbridge indicated the importance of providing greater protection for U.S. intellectual property.

We believe that protection of industrial designs will go a long way to preventing misuse of those designs by foreign companies who flout our laws through piracy and infringement. Although our patent laws provide for protection of industrial designs, applications are complex, time-consuming and costly. Protection through the copyright system for a 10-year period would simplify protection and give American companies a chance to blunt the unfair competitive methods of foreign abusers.

We most strongly agree with your statement on introduction of the bill that "This legislation is long overdue and extends to manufacturers the same type of intellectual property protection that is offered by our major trading partners."

We would appreciate your placing our views in the record of the hearings which you began on March 26, 1987.

Sincerely,

Jerry J. Jasinowski

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Washington, DC 20004-1703
(202)637-3000

THE MURRAY OHIO MANUFACTURING CO.
P.O. BOX 268 BRENTWOOD, TENNESSEE 37027
(615) 373-8500

March 31, 1987

The Honorable Dennis DeConcini
Hart Building
2nd and C Streets, N.E.
Washington, D.C. 20510

RE: S. 791

Dear Senator DeConcini:

The Murray Ohio Manufacturing Company is a Tennessee company that ranks as a leading manufacturer of bicycles and outdoor power equipment.

The competitiveness of American manufacturers is determined to a large part on the protection of new products and ideas. Like other manufacturers, Murray is concerned with the increased production of nongeniune after-market parts which are compromising the ability of American manufacturers to protect their product designs. The proliferation of such parts is handicapping the ability of American manufacturers to compete with both foreign and to a lesser extent domestic manufacturers of such parts. In addition, such parts mislead consumers as to origin and quality and may detrimentally affect consumer safety. Unfortunately, present patent laws have not afforded significant protection for American manufacturers against the piracy of such parts.

Murray, accordingly, supports S. 791. We feel the bill recognizes the ingenuity of American manufacturers by providing a cost-effective means for manufacturers to register their designs and protect themselves against the increasing number of such "look-alike" parts.

We appreciate your support and continuing interest in the subject area.

Yours very truly,

John L. Duncan
President

JLD/jn

DRESSER INDUSTRIES

DRESSER INDUSTRIES, INC. | PO. BOX 718 | 1600 PACIFIC | DALLAS, TEXAS 75221

EDWARD G. FIORITO
DIRECTOR
PATENTS AND LICENSING

March 31, 1987

The Honorable Dennis DeConcini
Chairman, Subcommittee on Patents,
Copyrights and Trademarks
Committee on the Judiciary
United States Senate
Washington, D. C. 20510

Dear Mr. Chairman:

On behalf of Dresser Industries I wish to express our strong support for S.791, the Industrial Innovation and Technology Act currently pending before your subcommittee.

Dresser Industries, Inc. is one of the world's leading suppliers of high technology and products and services to worldwide energy, natural resource and industrial markets. The thrust of our manufacturing and service operations is directed into five major lines of business:

- Petroleum industry products and services;
- Energy processing and conversion equipment;
- Refractories and minerals products;
- Construction and mining equipment;
- Industrial specialty products.

Both the economy and the consumer will benefit from the design protection found in this legislation. The current design patent system does not adequately protect intellectual property. Both the House and Senate bills would eliminate the delays and the unobvious standard which make the current system so ineffective.

Remedies such as those proposed in S.791 would encourage a continuous flow of new ideas which would result in companies expanding their investment in new product development. This will ultimately create a growth in United States employment.

With best personal regards.

Very truly yours,

Edward G. Fiorito

EGF:vlc

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OF COUNSEL
F. JOSEPH BRINIG * +
LAWRENCE BERNSTEIN

*ALSO ADMITTED IN VA.
+ALSO ADMITTED IN MD.

April 2, 1987

BY MESSENGER

The Honorable Dennis DeConcini
Chairman, Subcommittee on Patents,
Copyrights and Trademarks
United States Senate
SD - 137 Dirksen Senate Office Building
Washington, D. C. 20510

Dear Senator Deconcini:

As General Counsel for the Automotive Parts Rebuilders Association (APRA), I have been instructed on its behalf to comment on S. 791 entitled, "Industrial Innovation and Technology Act of 1987."

By way of introduction, APRA is a nonprofit trade association, the membership of which includes rebuilders of automotive parts and manufacturers and suppliers of component parts used in the automotive parts rebuilding industry. APRA is comprised of more than 1,300 members actively engaged in the automotive after-market, the great majority of which are small businesses. The rebuilding of automotive parts is a unique industry in the sense that it recycles; that is, used and worn component parts of an automotive part are repaired or replaced, as necessary, to provide rebuilt parts which are a potent factor in the automotive aftermarket.

APRA is fully supportive of legislation aimed at affording protection to the intellectual property of domestic manufacturers, at least on a par with similar protection enjoyed by foreign manufacturers. However, while the intent of S. 791 is clearly praiseworthy and meritorious, APRA is constrained to express its troubles with certain features of the Bill.

The purpose of the Bill is declared to be to protect an original design, the object of which is to make a useful article attractive or distinct in appearance to the purchaser or user. In turn, a "useful article" is defined as one

> which in normal use has an intrinsic utilitarian function that is not merely to

portray the appearance of the article or to convey information. An article which normally is a part of a useful article shall be deemed to be a useful article.

As you put it when introducing the Bill, those United States industries severely disadvantaged by the counterfeiting and copying that is worldwide include manufacturers, among other examples, of trucks and automobiles. Indeed, it occurs to APRA that a motor vehicle, as well as most all of its thousands of parts, could well "be deemed to be a useful article," each having in normal use an "intrinsic utilitarian function that is not merely to portray the appearance of the article or to convey information."

In your remarks you properly stated your understanding that there are concerns about the application of the legislation, particularly in the area of automobile crash parts. In Senator Hatch's remarks on the Bill, which followed yours, Senator Hatch conceded that "[l]egitimate questions have been raised about the restriction of sale of legitimate aftermarket replacement parts as a result of this bill." Senator Hatch also referred to the frustrations that the automotive replacement parts industry might experience were the legislation to be enacted. And with obviously attentive consideration to the problems that might ensue, Senator Hatch issued a caveat that the Congress would not want to preempt an area of marketplace competition and thereby creat a monopoly.

The automotive aftermarket is a huge market, providing the articles needed for the servicing and repair of an estimated 200 million motor vehicles in the United States. The automotive parts rebuilder provides aftermarket parts of the functional equivalence of corresponding new parts at much lower prices. It is proconsumer and is a consituent element in the automotive aftermarket. Further, it is predominantly small business.

Under the Bill, as the Association fears it may be construed, the motor vehicle manufacturers could use the Bill as a means of foreclosing the automotive parts rebuilder from performing his traditional role. This could well be accomplished through the ease of original designs created by the motor vehicle manufacturer of the motor vehicle itself and of the parts which normally are parts of the motor vehicle, a "useful article." Further, in such circumstances, the mere rebuilding of an automotive part could be apprehended to be an infringement of the copyright granted by the Act.

We urge your careful consideration of the foregoing and the adoption of appropriate amendatory language which would make the Bill inapplicable to all automotive aftermarket parts. We would also ask that this letter be included in the hearing record.

Sincerely yours,

Richard A. Mehler

April 10, 1987

DP
Fit for Life

The Honorable Dennis DeConcini, Chairman
Subcommittee on Patents, Copyrights & Trademarks
Committee On The Judiciary
SH-327 Hart Senate Office Building
Washington, D.C. 20570

Dear Senator DeConcini:

I wish to congratulate you on your recent selection as Chairman of the Subcommittee on Patents, Copyrights and Trademarks, and express my pleasure in hearing of the action you have already taken in presenting Senate Bill 791 in protection of United States design and technology. It is a beginning - and we applaud and support your efforts.

The protection of the "industrial design" or the visual appearance of the product is, however, only the tip of the iceberg as it relates to the lack of patent and copyright protection realistically afforded the U.S. designer, inventor, individual manufacturer or, in fact, the U.S. industrial economy.

There is today, a terrible inconsistency between what a patent implies - the protection of an invention or design - and what, in fact, the laws and courts practice regarding the restriction of imports and copies in the market place.

In July of 1986, I wrote to Senator Mathias regarding this problem as a response to an article in the Atlanta Constitution quoting him with regard to American invention complacency. I have enclosed copies of the article and letter for your review and consideration.

Our company has experienced the frustration and a substantial economic decline resulting from lack of timely protection expected and implied by the word PATENTED on our product.

One would justifiably expect that if a patent were granted, it would fall on the copier to prove that he did not infringe the patent or that the patent was invalid BEFORE his product could be placed in the market. In fact, anyone can put their product on the market - in recent years, particularly importers - AND ONLY THEN does the legal process of protecting your patent really begin.

In the long, drawn out course of our current judicial procedure, the effect on the inventor or manufacturer is devastating - win, lose or settlement!

A typical scenario - one we have experienced - goes something like this:

I. U.S. manufacturer invents or negotiates an exclusive license to manufacture a PATENTED product. A significant UP FRONT COST is involved to obtain this right.

II. The product concept requires further design effort, development, tooling and marketing. All at a SUBSTANTIAL RISK AND COST to the manufacturer.

III. The product achieves a success and the manufacturer expands through additional personnel and facilities at FURTHER EXPENSE to the manufacturer. The risk seems reasonable because, after all, the product is PROTECTED by a patent.

IV. Importers, seeing the success of the product, COPY THE PATENTED FEATURES and introduce their product to the U.S. market and, typically, AT A MUCH LOWER COST.

V. The market, created by a PATENTED product, now begins to erode for the U.S. manufacturer. Sales drop, production is reduced, suppliers of component material are cut off, employees are layed off and the company experiences the financial pressure of the expansion that is no longer required. And why? Because an importer was allowed to put his product on the market BEFORE the legal process can determine if the patent is infringed or invalid.

Does the patent protect the product or company from the importer? NO! Does the patent preserve the market until the question of copy has been adjudicated? NO! Are the investments for achieving innovation and patent protection protected? NO!

In my opinion, the current judicial procedures dilute the value of a patent as protection and, for a U.S. manufacturer, it destroys the opportunities of a market created by a new idea and based on supply and demand.

In many cases, the U.S. manufacturer's market is destroyed before the legal process of a court action is completed. No financial recourse can be made against the off shore manufacturer. In fact, he may no longer exist by the time a decision is reached through the appeals process!

If a patent is intended to be protection, then it seems to me the laws and judicial system must be consistent and provide up front protection. The patent should be held innocent UNTIL PROVEN GUILTY and its market protected.

A PATENTED PRODUCT AND ITS MARKET MUST BE PROTECTED BY PLACING THE RESPONSIBILITY OF PROVING THE PATENT NOT INFRINGED OR INVALID ON THE PERSON TRYING TO ENTER THE MARKET - BEFORE THE COPY IS INTRODUCED.

For the very preservation of U.S. industry, this is especially true for imported copies produced under a totally different set of economic rules than those in the United States.

Many times these are copies produced by a foreign manufacturer, subsidized by a government which is receiving foreign aid from the United States! Somewhat similar to your giving the bullets to the man who is about to shoot you!

Congress must be made to understand the economic effect of this problem on our inventive opportunities to stimulate our industry and economy. Only Congress can correct this problem.

Protection after the fact is not protection, it is recourse and against foreign manufacturers, it may not even be that.

I sincerely hope that through the efforts of your committee, we can achieve at the very least UP FRONT PROTECTION.

Our continued best wishes to you and your committee in bringing justice and protection to our patent, copyright and trademark laws.

Sincerely,

DIVERSIFIED PRODUCTS CORPORATION

Ira J. Silberman
Senior Vice President

IJS/lw

cc: Senator Howell Heflin
Senator Richard C. Shelby
Congressman Claude Harris
Congressman Ben Erdeich
Congressman Ronnie G. Flippo
Congressman Tom Bevill
Congressman Bill Nichols
Congressman William L. Dickinson
Congressman Sonny Callahan
Ms. Maria Dennison, SGMA
Mr. Milton Bush, SGMA

July 23, 1986

Senator Charles Mathias
Room 387
Russell Senate Office Building
Washington, DC 20510

Dear Senator Mathias:

Recently I read an article in the Atlanta Constitution pertaining to U.S. patents and U.S. ingenuity, a copy of which is enclosed. You are quoted three times relating to "invention on the wane in America", "losing our competitive edge" and "our trade deficit can be partly attributed to a current attitude of complacency".

I would like to suggest to you that inventiveness is not on the wane in America, but only the request for patent applications. I believe that this is due to a combination of problems with our legal system, all within the power of Congress to correct. The two biggest of these problems, in my opinion, are:

1. The high percent of patents held invalid or non-infringed when challenged in the courts.

2. And most important, the inconsistency of our laws. Laws that on one hand provide for the patent process to give you protected legal ownership to a product or idea but on the other hand, don't protect the inventor from "knock-offs" - even exact copies - being imported and sold in the United States.

Rather than protecting the inventor and preventing a copy from being sold until after the copier proves the patent is invalid or non-infringed, the courts currently allow copies to be immediately distributed and the patentee must bring suit against the copier. The legal process is long and expensive, and the appeal process typically prevents the suit from being resolved until after the market has been destroyed and/or replaced. U.S. patented products are being buried under imports of infringing products and our commerce laws say this is legal. Why go to the expense of applying for a patent if it will probably be declared invalid or infringers can sell right along side

of it without having to first prove it doesn't infringe? Where is the protection of a patent and the investment for putting the product into production? Where is the protection of the market? How can an inventor get restitution when both the market and company are gone?

The United States is the largest consumer market for hard goods in the world, but U.S. manufacturers are not being protected - with or without patents - from imports. Consequently, our basic manufacturing resources are going under and overseas producers are growing stronger from U.S. consumer dollars. This is not balance of trade, it's the dissolution of basic U.S. resources.

At the very least, we must protect the U.S. patent/manufacturer and his market until the patent is determined to be invalid or non-infringed. Importers must be enjoined from selling their product until they prove their product.

Additionally, the patent office must be more critical of patent applications. The percent of patents which can and do stand the test of validity must greatly increase either through more critical evaluation of the application or better understanding and judgement by our courts - or both.

The world has changed and the U.S. market is much more accessible to other courtries. Foreign competition is a much greater factor to U.S. manufacturers. It is time that the laws regarding imports be reviewed regarding patented products.

Thank you for reading my opinion.

Sincerely,

DIVERSIFIED PRODUCTS CORPORATION

Ira J. Silberman
Senior Vice President

IJS/lw

Attachment

cc: Senator Jeremiah Denton
Senator Howell Heflin
Representative Bill Nichols
Cal James
Buddy Pilgrim
Dave Newton

Thursday, July 17, 1986 THE ATLANTA CONSTITUTION

Foreign inventors appear to have patent on ingenuity

By Bob Dart
Journal-Constitution Washington Bureau

WASHINGTON — What has happened to good old American ingenuity?

Last year, nearly half of all U.S. patents went to foreign inventors. Over the past 25 years, the number of U.S. patents granted to foreigners has grown fourfold from 11 percent of total patents awarded in 1961 to 44 percent in 1985.

Mathias

"There are signs that today invention is on the wane in America," said Sen. Charles Mathias (R-Md.), chairman of the Senate subcommittee on patents, copyrights and trademarks.

"In too many fields, we are losing our competitive edge to foreign nationals who are increasingly taking advantage of our patent system and beating us at our own game," Mathias said recently in a speech on the Senate floor. "Our trade deficit can be partly attributed to a current attitude of complacency toward innovation, new technology and productivity in America."

Indeed, the trend toward the granting of patents to more and more foreigners is mirrored by the trend in trade that shows the influx of more and more imports into the U.S. marketplace.

Last year, Japanese inventors received 12,783 U.S. patents — 17 percent of the national total. Many were in automotive technology, computers and electronics, said William Craig, a spokesman for the Patent Office.

"The only speculation" about the cause of this invasion of foreign inventors, said Craig, "is that technologies in foreign countries are developing so rapidly" that Americans are lagging behind.

"We've become too complacent, too fat and sassy," said J. Morgan Greene, vice chairman of the U.S. Patent Model Foundation, a nonprofit organization of industrial, education and government officials that aims to "rekindle the spirit" of American inventiveness.

This year marks the 150th anniversary of passage of the Patent Reform Act of 1836. The basic principles of that legislation remain in effect today. Basically, it provides federal backing for an inventor's right to benefit from his invention.

"The patent system added the fuel of interest to the fire of genius," said Abraham Lincoln, himself the 1849 patent-holder of the "New and Improved Manner of Buoying Vessels over Shoals" — a device to lift steamboats off sandbars.

Patents protected Alexander Graham Bell, Thomas Alva Edison and other great American inventors, said Mathias. But increasingly, U.S. patents are protecting foreign inventors. "Of all the U.S. patents granted last year," said Mathias, "only 56 percent went to Americans."

There were 75,302 patents issued in the United States in 1985. Of these, the Patent Office reported, 17 percent went to Japanese nationals, 9 percent to West Germans, 3 percent to Britons, 3 percent to French nationals, 2 percent to Canadians, and 10 percent to other foreigners. There were 172 patents issued to citizens of the Soviet Union last year.

Seeking to stimulate American inventiveness and commemorating the 150th anniversary of the Patent Act, the Patent Model Foundation was created two years ago. It aims to raise $20 million through corporate donations to recover some 100,000 lost patent models from the 1800s for a collection at the Smithsonian Institution and to rekindle the nation's interest in inventing.

Hopefully," said Greene, the foundation's Rekindle the Spirit campaign "will stimulate a resurgence of ingenuity and enterprise that will re-establish America's once acknowledged industrial leadership."

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April 20, 1987

The Honorable Dennis DeConcini
Chairman, Judiciary Subcommittee
on Patents, Copyrights & Trademarks
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

I am writing on behalf of Intellectual Property Owners, Inc. (IPO) in support of S. 791, a bill to provide effective legal protection for industrial designs of useful articles. We request that our letter be included in the printed hearing record.

IPO is a nonprofit association whose members own patents, trademarks and copyrights. IPO's members include large corporations, small businesses, universities and individuals.

IPO believes an effective system for protecting intellectual property rights can help restore the competitiveness of U.S. industry. S. 791, by providing industrial design protection that would be more certain, quicker, and less expensive than the protection available today under the design patent law and other U.S. laws, would give an important boost to competitiveness.

The system proposed in S. 791 would protect against the copying of designs of useful articles for a period of ten years. It would be administered by the Copyright Office. It would protect most designs that are intended to make industrial articles attractive or distinct in appearance to the purchasing or using public. Japan, West Germany and other countries have similar systems.

A great deal of evidence exists that the attractiveness or distinctiveness of design of a product is a major factor in the product's success or failure in the market place. By providing more encouragement for industry to invest in new and better design, we can make American products more competitive. Also, by protecting designs from offshore copyists who do not have to recover development costs, we

can help protect the investments in design that are already being made by U.S. industry.

Manufacturers have had problems obtaining or enforcing design patents in many reported court cases. For example, in Famolare, Inc. v. Edison Brothers Stores, Inc., 202 USPQ 373 (N.D. Ill., 1979), the court invalidated the design patent but also made a finding of copying. The court found that Famolare's patent covering a wavy design for shoe soles did not meet the nonobviousness requirement of patent law and therefore was invalid. The court also found, however, that the defendants, and indeed a significant part of the entire industry, had imitated the patent owner's design. The creator of the design would not have suffered its loss to copyists if effective industrial design legislation had been available.

Another example was submitted last year to the Senate Committee on Finance by Hillenbrand Industries, Inc. Hillenbrand introduced a new line of American Tourister luggage in 1982 with a unique series of vertical pleats and associated design features. An application was filed for design patent protection in 1982, but the patent did not issue until 1985. By that time, a number of importing infringers had knocked off the American Tourister design and entered the marketplace. See Hearing before the Subcommittee on International Trade of the Committee on Finance, United States Senate, 99th Cong., 2d Sess., on S. 1860 and S. 1869, May 14, 1986, at page 250.

Because of the perception in this country that the design patent system is ineffective, owners of designs often seek unsuccessfully to utilize legal remedies other than design patents, such as trademarks, unfair competition or copyright law. For example, in Digital Equipment Corp. v. C. Itoh and Co., Ltd., 229 USPQ 598 (D. N.J. 1985), the plaintiff was unable to establish trademark or copyright infringement even though the defendant admitted it intended to copy the appearance of the plaintiff's computer equipment. Although some design owners do succeed in stopping copyists in court, both the perception and the reality are that chances are not good.

Legislation similar to S. 791 has been introduced in the Senate or in the House of Representatives in every Congress for several years. With U.S. industry facing unprecedented competition from imports that imitate the appearance of articles manufactured in this country, we believe the United States no longer can afford to put off the issue of effective protection for designs.

We urge your subcommittee to approve this legislation. Its enactment will close a significant gap in U.S. intellectual property law.

Sincerely,

Donald W. Banner

Donald W. Banner
President

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